

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Lake County	County Lake
Audit Date 12/31/04	Opinion Date 6/17/05	Date Accountant Report Submitted to State: 8/10/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

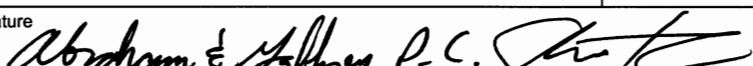
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | | |
|---|--|---|
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.			
Street Address 3511 Coolidge, Suite 100		City East Lansing	State MI
Accountant Signature 		ZIP 48823	Date 8/10/05

Lake County, Michigan
FINANCIAL STATEMENTS
December 31, 2004

Lake County, Michigan

December 31, 2004

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Lake County, Michigan

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Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of Certified
Public Accountants
and
Michigan Association of
Certified Public Accountants

Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
of Lake County
Baldwin, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of Lake County, Michigan as of and for the year ended December 31, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Lake County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Lake County Road Commission. The Lake County Road Commission represents 98% and 94%, respectively of the total assets and revenues of the component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us. Our opinion expressed herein, insofar as it relates to the amounts included for the Road Commission is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the audits of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of Lake County, Michigan as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the County has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of January 1, 2004, along with all related statements and interpretations.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2005 on our consideration of Lake County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lake County's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 17, 2005

Management's Discussion and Analysis

As management of the *County of Lake*, we offer this narrative overview and analysis of the financial activities of the County, including limited information pertaining to the separately audited Road Commission for the year ended December 31, 2004. For more detailed information, the Road Commission's separately issued financial statements may be obtained from their administrative office.

Financial Highlights

- The assets of the County primary government exceeded its liabilities at the close of the fiscal year by \$9,550,003 (*net assets*). Of this amount, \$5,205,413 (*unrestricted net assets*) may be used to meet the government's ongoing obligations.
- The primary government's total net assets increased by \$1,364,816, or 16.7 percent.
- As of the close of the fiscal year, the County's governmental funds reported combined ending fund balances of \$2,437,518, an increase of \$843,992 or 53.0 percent over the prior year. Of this total, 73.9 percent or \$1,802,379 is *available for spending* at the government's discretion (*unreserved and undesignated fund balance*); however, in excess of two-thirds of this amount is subject to spending restrictions.
- At the end of the fiscal year, unreserved and undesignated fund balance for the General Fund was \$163,997, an amount equal to 3.8 percent of total General Fund expenditures (including operating transfers).
- The primary government's total net bonded debt decreased by \$239,000 or 3.4 percent during the current fiscal year.

Overview of the Financial Statements

The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required and other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide a broad overview of the County's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets indicate whether the financial position of the County is improving or deteriorating. The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of Lake County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include general government, public safety, public works, health and welfare, community and economic development, recreation and cultural functions. The business-type activities primarily represent the administration of the delinquent property tax system.

The government-wide financial statements include not only the County itself (known as the *primary government*), but also three legally separate entities: the Lake County Road Commission, the County Drainage Districts, and the Council on Aging. Financial information for the *component units* is reported separately from the financial information presented for the primary government itself.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County maintains 33 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Sheriff Road Patrol, Jail TRV, Revenue Sharing Reserve, and Ambulance Funds, each of which is considered to be a major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The County adopts an annual appropriated budget for its General, and special revenue funds. A budgetary comparison schedule has been provided herein to demonstrate compliance with the County General Fund and all major Special Revenue Funds budgets.

Proprietary funds. The County maintains two types of proprietary funds. *Enterprise funds* report the same functions as business-type activities in the government-wide financial statements. The County uses an enterprise fund to account for the Delinquent Tax Revolving Funds and the Treasurer's Unrestricted Fund which are considered to be major funds. Data from the other nonmajor enterprise funds are combined into a single, aggregate presentation. Individual fund data for each of these nonmajor enterprise funds is provided in the form of combining statements elsewhere in this report.

The County maintains *internal service funds* to account for and allocate costs internally among the County's various functions. The County uses two (2) internal service funds to account for the following functions: County supplies and employee benefits. Because these services predominantly benefit governmental functions, they have been included within *governmental activities* in the government-wide financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the County's own programs.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *other supplementary information*, including combining statements of the nonmajor governmental funds and internal service funds information.

Government-wide Financial Analysis

Statement of Net Assets

As noted earlier, net assets serve over time as a useful indicator of a government's financial position. In the case of the County of Lake, assets exceeded liabilities by \$9,550,003 at the close of the fiscal year.

Note: Because this is the first year of implementation of the Governmental Accounting Standards Board Statement 34 Reporting Model, the following tables present only current year data. In future years, comparative analysis of government-wide data will be presented.

County of Lake's Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total 2004
Assets			
Current and other assets	\$ 5,868,593	\$3,267,138	\$ 9,135,731
Noncurrent assets	<u>10,048,082</u>	<u>1,396,497</u>	<u>11,444,579</u>
Total assets	15,916,675	4,663,635	20,580,310
Liabilities			
Current	4,263,264	39,998	4,303,262
Noncurrent	<u>6,727,045</u>	<u>-</u>	<u>6,727,045</u>
Total liabilities	10,990,309	39,998	11,030,307
Net assets			
Invested in capital assets, net of related debt	2,561,475	-	2,561,475
Restricted	1,783,115	-	1,783,115
Unrestricted	<u>581,776</u>	<u>4,623,637</u>	<u>5,205,413</u>
Total net assets	<u>\$ 4,926,366</u>	<u>\$4,623,637</u>	<u>\$ 9,550,003</u>

The County's net assets include \$2,561,475 in capital assets comprised of land, buildings, vehicles and equipment less any outstanding related debt used to acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending.

Certain other limitations on the use of net assets apply due primarily to legal restrictions. These restricted net assets total \$1,783,115. The remaining balance of *unrestricted net assets* (\$5,205,413 or 54.5 percent) may be used to meet the government's ongoing obligations.

Statement of Activities

	Governmental Activities	Business-type Activities	Total
	2004	2004	2004
Revenues			
Program revenue:			
Charges for services	\$ 1,390,737	\$ 654,147	\$ 2,044,884
Operating grants and contributions	3,603,432	-	3,603,432
General revenues:			
Property taxes	4,809,261	-	4,809,261
State Revenue Sharing	116,298	-	116,298
Investment earnings	43,070	48,203	91,273
Miscellaneous	216,799	-	216,799
Transfers	275,382	(275,382)	-
Total revenues	<u>10,454,979</u>	<u>426,968</u>	<u>10,881,947</u>
Expenses			
General government	2,605,831	-	2,605,831
Public safety	5,204,545	-	5,204,545
Health and welfare	1,196,612	-	1,196,612
Community and Economic Development	9,685	-	9,685
Other	53,487	-	53,487
Interest on long-term debt	365,164	-	365,164
Delinquent tax collection and other Business-type activities	-	81,807	81,807
Total expenses	<u>9,435,324</u>	<u>81,807</u>	<u>9,517,131</u>
Increase in net assets	1,019,655	345,161	1,364,816
Net assets, beginning of year	<u>3,906,711</u>	<u>4,278,476</u>	<u>8,185,187</u>
Net assets, end of year	<u>\$ 4,926,366</u>	<u>\$ 4,623,637</u>	<u>\$ 9,550,003</u>

Governmental Activities

The preceding table shows that the net assets of governmental activities increased by \$1,019,655 during 2004. On the revenue side, the General Fund contribution to this increase consisted of additional revenue from current tax revenue, Jail, Courts and other sources offset by decreases in state revenue sharing and lower interest revenue for a net increase totaling \$195,754. On the expenditure side, the General Fund experienced over \$127,708 in contingency and net expenditure savings from several departments.

Other funds that made significant contributions to the increase in net assets included the Revenue Sharing Fund with a net increase of over \$600,000. Remaining contributions came from other funds including E911 Wireless Service and Sheriff Road Patrol.

Business-type Activities

Net assets of the County's business-type activities increased \$345,161. This increase in net assets consists of a decrease in the need for funds from the Delinquent Tax Funds therefore more of the revenue generated was available to be retained in the fund.

Financial Analysis of the Government's Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the County's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. In particular, *unreserved fund balance* serves as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$2,437,518, an increase of \$843,992. Approximately 73.9 percent of this total amount (\$1,802,379) constitutes *unreserved/undesignated fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is either *reserved* to indicate that it is not available for new spending (\$634,202), or is *designated* to support other projects (\$937).

The General Fund is the chief operating fund of the County. At the end of the current fiscal year, the total fund balance was \$164,934, while, the unreserved/undesignated fund balance of the General Fund was \$163,997, an amount equal to 99.4 percent of total General Fund expenditures. This portion of General Fund unreserved/undesignated fund balance is consistent with standards issued by the Governmental Finance Officers Association.

The fund balance of the County's General Fund increased by \$24,259 during the current fiscal year. Actual General Fund revenues fell short of the amount originally budgeted by \$98,574. This over budget amount, plus total expenditures being under budget by \$122,833 left a total of \$24,259 at year-end.

The Sheriff Road Patrol Fund has a total fund balance of \$184,515, which increased by \$159,574 over the prior year. This increase reflected a \$102,281 difference in appropriated transfer out and the actual amount transferred to the Secondary Road Patrol. The remainder of the increase was caused by a \$35,484 increase in revenue over the final amended budget and a \$21,809 savings in current expenditures over appropriations.

The Jail TRV Fund has a fund deficit of \$373,091, which decreased by \$206,421 from the prior year deficit position. This decrease is due to a \$281,340 short-fall in revenue.

The Revenue Sharing Reserve has a total fund balance of \$691,539, which is also the net increase for the year, as this fund was established in the current year to account for the shift of State Revenue Sharing dollars from State to local funding.

The Ambulance Fund has a total fund balance of \$398,021, which increased by \$144,083 over the prior year. This increase reflects a \$150,667 difference in appropriated transfer out and the actual amounts transferred to the Equipment Replacement and the E911 Wireless Service Funds.

General Fund Budgetary Highlights

Lake County's budget is a dynamic document. Although adopted in December (prior to the start of the year), the budget is frequently amended during the course of the year to reflect changing operational demands.

Actual General Fund revenue and other financing sources totaled \$4,320,476, \$98,574 below the final amended budget. Although the bottom line varied a little from the final amended budget, there were some wide variations in individual revenue accounts reflecting the tightening national and local economy. The budgeted shortfall was created by Administrative charges for services being \$91,999 less than expected as well as a \$111,069 negative variance in State shared revenue. If these two categories would have come in at budget, the general fund would have exceeded the budgeted revenues by over \$100,000.

The original General Fund expenditure budget of \$4,245,190 was revised to \$4,419,050 for an increase of \$173,860 or 4.1 percent. A majority of the amendments were simply inflationary modifications in various activities to better align the budgetary figures once up-to-date data became available.

Actual County expenditures for 2004 were \$122,833 under budget. General fund actual expenditures came in at \$4,296,217 and the final amended budget was \$4,419,050, which was a 2.9% difference.

Capital Asset and Debt Administration

Capital assets. As of December 31, 2004, the County's investment in capital assets, net of accumulated depreciation, for its governmental activities amounted to \$9,436,475. (These capital assets do not include those of the separately audited Road Commission component unit). This investment in capital assets includes land, buildings and improvements, vehicles, machinery and equipment. The net increase in the County's investment in capital assets for the primary government in the current fiscal year amounted to \$104,195, less a net increase of \$230,405 in accumulated depreciation, for a net increase of \$126,210 or 1.3 percent.

County of Lake's Capital Assets (net of depreciation)

	Primary <u>Government</u>
Land and land improvements	\$ 81,613
Buildings and improvements	8,958,671
Furniture and equipment	159,204
Vehicles	<u>236,987</u>
Total	<u>\$ 9,436,475</u>

Long-term debt. At the end of the current year, the County Primary Government had total debt outstanding of \$7,016,394. (This amount does not include the debt of the separately audited Road Commission component unit). All of the bonds are backed by the County's full faith and credit.

County of Lake's Bonded Indebtedness

	<u>Primary Government</u>
General obligation bonds	\$ 6,875,000
Accrued sick and vacation	<u>141,394</u>
	<u>\$ 7,016,394</u>

There is significantly more information related to debt detailed in Note G. The County's outstanding general obligation debt is well under the current debt limitation of \$39,466,488 (10 percent of taxable valuation).

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the County's budget for the 2005 year:

- The uncertainty over the State's economy will likely result in additional decreases in state funding.
- Healthcare costs will continue to escalate at a rate higher than inflation and require continued cost containment measures.
- The loss of State Share revenues
- Anticipated increase in revenues in the TRV Project fund
- Various predetermined labor union issues
- Combining of nonmadated positions to reduce budget short falls

Requests for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Lake County
800 Tenth Street, Suite 200
Baldwin, Michigan 49304

BASIC FINANCIAL STATEMENTS

Lake County, Michigan
STATEMENT OF NET ASSETS
December 31, 2004

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 894,779	\$ 2,167,198	\$ 3,061,977	\$ 1,259,051
Cash and cash equivalents - restricted	165,000	-	165,000	-
Receivables				
Current	4,054,858	-	4,054,858	264,633
Delinquent	-	843,129	843,129	-
Accounts	137,001	20,939	157,940	519,422
Special assessments	-	-	-0-	2,788
Inventory	8,869	-	8,869	325,666
Internal balances	(157,000)	157,000	-0-	-
Due from fiduciary funds	18,940	-	18,940	-
Due from other governmental units				
Federal/State	680,366	-	680,366	-
Local	65,780	78,872	144,652	-
Total current assets	5,868,593	3,267,138	9,135,731	2,371,560
Noncurrent assets				
Investments	647,569	1,360,535	2,008,104	-
Capital assets, net	9,436,475	-	9,436,475	2,685,847
Internal balances	(35,962)	35,962	-	-
Total noncurrent assets	10,048,082	1,396,497	11,444,579	2,685,847
TOTAL ASSETS	15,916,675	4,663,635	20,580,310	5,057,407
LIABILITIES				
Current liabilities				
Accounts payable	158,459	15,689	174,148	59,114
Accrued liabilities	218,044	15,406	233,450	14,101
Accrued interest payable	73,615	-	73,615	-
Due to others	-	8,903	8,903	-
Due to other governmental units				
Federal/State	229,000	-	229,000	-
Current portion of compensated absences	35,349	-	35,349	21,376
Current portion of long-term debt	254,000	-	254,000	-
Deferred revenue	3,294,797	-	3,294,797	306,932
Total current liabilities	4,263,264	39,998	4,303,262	401,523
Non-current liabilities				
Compensated absences	106,045	-	106,045	192,383
Noncurrent portion of long-term debt	6,621,000	-	6,621,000	-
Total noncurrent liabilities	6,727,045	-0-	6,727,045	192,383
TOTAL LIABILITIES	10,990,309	39,998	11,030,307	593,906
NET ASSETS				
Invested in capital assets, net of related debt	2,561,475	-	2,561,475	2,685,847
Restricted for:				
Public safety	489,354	-	489,354	-
Other purposes	1,293,761	-	1,293,761	1,777,654
Unrestricted	581,776	4,623,637	5,205,413	-
TOTAL NET ASSETS	\$ 4,926,366	\$ 4,623,637	\$ 9,550,003	\$ 4,463,501

See accompanying notes to financial statements.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2004

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets				
	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Component Units
Primary government:					
General government					
Public safety	\$ 2,605,831	\$ 211,780	\$ 1,187,339	\$ -	\$ (1,206,712)
Health and welfare	5,204,545	931,092	2,015,914	-	(2,257,539)
Community and economic development	1,196,612	247,865	400,179	-	(548,568)
Other	9,685	-	-	-	(9,685)
Interest on long-term debt	53,487	-	-	-	(53,487)
	365,164	-	-	-	(365,164)
Total general government	9,435,324	1,390,737	3,603,432	-	(4,441,155)
Business-type activities:					
Treasurer's Unrestricted	-	79,315	-	-	79,315
Delinquents tax revolving	3,098	476,915	-	-	473,817
Other	78,709	97,917	-	-	19,208
Total business-type activities	81,807	654,147	-	-0-	572,340
Total primary government	\$ 9,517,131	\$ 2,044,884	\$ 3,603,432	\$ -0-	(3,868,815)
Component units:					
Road commission	3,178,667	620,942	2,937,032	460,789	840,096
Council on Aging	234,000	-	-	-	(234,000)
Drainage Districts	-	-	-	2,160	2,160
Total component units	\$ 3,412,667	\$ 620,942	\$ 2,937,032	\$ 462,949	608,256
General revenues:					
Property taxes					
State shared revenue					
Investment earnings					
Gain on sale of assets					
Miscellaneous					
Transfers					
General revenues:	\$ 4,809,261	4,809,261	-	-	4,809,261
Property taxes	116,298	116,298	-	-	116,298
Investment earnings	43,070	43,070	48,203	-	91,273
Gain on sale of assets	-	-	-	-	-0-
Miscellaneous	216,799	216,799	-	-	216,799
Transfers	275,382	275,382	(275,382)	-	-0-
Total general revenues and transfers	5,460,810	5,460,810	(227,179)	-	5,233,631
Change in net assets	1,019,655	1,019,655	345,161	-	1,364,816
Net assets, beginning of the year	3,906,711	3,906,711	4,278,476	-	8,185,187
Net assets, end of the year	\$ 4,926,366	\$ 4,926,366	\$ 4,623,637	\$ 9,550,003	\$ 4,463,501

See accompanying notes to financial statements.

Lake County, Michigan

GOVERNMENTAL FUNDS BALANCE SHEET

December 31, 2004

	General	Sheriff Road Patrol	Jail TRV
ASSETS			
Cash and cash equivalents	\$ 120,161	\$ 211,872	\$ (626,152)
Cash and cash equivalents - restricted	-	-	-
Investments	-	-	-
Receivables			
Taxes			
Current	1,637,242	1,095,979	-
Accounts	98,740	-	-
Due from other funds	144,016	-	-
Due from other governmental units			
Federal/State	-	-	318,566
Local	-	-	-
TOTAL ASSETS	\$ 2,000,159	\$ 1,307,851	\$ (307,586)
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 48,038	\$ 2,771	\$ 34,686
Accrued liabilities	126,753	24,586	30,819
Due to other funds	341	-	-
Due to other governmental units			
Federal/State	-	-	-
Deferred revenue	1,660,093	1,095,979	-
Advances from other funds	-	-	-
TOTAL LIABILITIES	1,835,225	1,123,336	65,505
FUND BALANCES (DEFICITS):			
Reserved for Debt service	-	-	-
Unreserved			
Designated for:			
Other purposes	937	-	-
Undesignated, reported in:			
General fund	163,997	-	-
Special revenues fund	-	184,515	(373,091)
Capital projects fund	-	-	-
TOTAL FUND BALANCES (DEFICITS)	164,934	184,515	(373,091)
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	\$ 2,000,159	\$ 1,307,851	\$ (307,586)

See accompanying notes to financial statements.

Revenue Sharing Reserve	Ambulance	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 398,021	\$ 634,741	\$ 738,643
-	-	165,000	165,000
-	-	647,569	647,569
818,609	503,028	-	4,054,858
-	-	38,261	137,001
-	-	10,000	154,016
-	-	361,800	680,366
-	-	65,780	65,780
<u>\$ 818,609</u>	<u>\$ 901,049</u>	<u>\$ 1,923,151</u>	<u>\$ 6,643,233</u>
\$ -	\$ -	\$ 50,006	\$ 135,501
-	-	35,886	218,044
127,070	-	165,000	292,411
-	-	229,000	229,000
-	503,028	35,697	3,294,797
-	-	35,962	35,962
127,070	503,028	551,551	4,205,715
-	-	634,202	634,202
-	-	-	937
-	-	-	163,997
691,539	398,021	418,061	1,319,045
-	-	319,337	319,337
<u>691,539</u>	<u>398,021</u>	<u>1,371,600</u>	<u>2,437,518</u>
<u>\$ 818,609</u>	<u>\$ 901,049</u>	<u>\$ 1,923,151</u>	<u>\$ 6,643,233</u>

Lake County, Michigan

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

December 31, 2004

Total fund balance - governmental funds **\$ 2,437,518**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 10,513,279	
Accumulated depreciation is	<u>(1,076,804)</u>	
Capital assets, net		9,436,475

Internal Service Funds are used by management to charge the costs
of certain activities to individual funds. The assets and liabilities
of the Internal Service Funds are included in the governmental activities
in the Government-wide Statement of Net Assets

Net assets of governmental activities accounted for in Internal Service Funds	142,382
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Long-term liabilities are not due and payable in the current period and
therefore are not reported in the Governmental Funds Balance Sheet.
Long-term liabilities at year-end consist of:

Direct County obligations	\$ 6,875,000	
Accrued interest payable	73,615	
Compensated absences	<u>141,394</u>	
		<u>(7,090,009)</u>

Net assets of governmental activities	<u><u>\$ 4,926,366</u></u>
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See accompanying notes to financial statements.

Lake County, Michigan

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended December 31, 2004

	General	Sheriff Road Patrol	Jail TRV
REVENUES			
Taxes	\$ 2,478,799	\$ 1,036,105	\$ -
Licenses and permits	10,596	-	-
Intergovernmental			
Federal/State	643,764	15,073	1,922,460
Charges for services	671,735	-	-
Fines and forfeits	10,420	-	-
Interest and rents	5,340	-	-
Other	137,660	16,616	37,200
TOTAL REVENUES	3,958,314	1,067,794	1,959,660
EXPENDITURES			
Current			
General government	2,389,821	-	-
Public safety	1,390,746	862,743	1,757,312
Community and economic development	7,651	-	-
Health and welfare	216,193	-	-
Other	53,362	-	-
Capital outlay	10,636	24,926	10,762
Debt service	-	-	-
TOTAL EXPENDITURES	4,068,409	887,669	1,768,074
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(110,095)	180,125	191,586
OTHER FINANCING SOURCES (USES)			
Operating transfers in	362,162	-	10,032
Operating transfers out	(227,808)	(20,551)	(408,039)
TOTAL OTHER FINANCING SOURCES (USES)	134,354	(20,551)	(398,007)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	24,259	159,574	(206,421)
Fund balances (deficits), beginning of year	140,675	24,941	(166,670)
Fund balances (deficits), end of year	<u>\$ 164,934</u>	<u>\$ 184,515</u>	<u>\$ (373,091)</u>

See accompanying notes to financial statements.

<u>Revenue Sharing Reserve</u>	<u>Ambulance</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 818,609	\$ 475,748	\$ -	\$ 4,809,261
-	-	-	10,596
-	-	673,314	3,254,611
-	-	873,760	1,545,495
-	-	-	10,420
-	339	284,311	289,990
-	-	67,748	259,224
<u>818,609</u>	<u>476,087</u>	<u>1,899,133</u>	<u>10,179,597</u>
-	-	236,605	2,626,426
-	-	1,053,050	5,063,851
-	-	-	7,651
-	273,531	701,578	1,191,302
-	-	-	53,362
-	-	17,907	64,231
-	-	604,164	604,164
<u>-0-</u>	<u>273,531</u>	<u>2,613,304</u>	<u>9,610,987</u>
818,609	202,556	(714,171)	568,610
-	-	1,128,009	1,500,203
<u>(127,070)</u>	<u>(58,473)</u>	<u>(382,880)</u>	<u>(1,224,821)</u>
<u>(127,070)</u>	<u>(58,473)</u>	<u>745,129</u>	<u>275,382</u>
691,539	144,083	30,958	843,992
-	253,938	1,340,642	1,593,526
<u>\$ 691,539</u>	<u>\$ 398,021</u>	<u>\$ 1,371,600</u>	<u>\$ 2,437,518</u>

Lake County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2004

Net change in fund balances - total governmental funds **\$ 843,992**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 104,195	
Depreciation expense	<u>(230,405)</u>	
Excess of depreciation expense over capital outlay		(126,210)

Internal service funds are used by management to charge the costs of certain activities to individual funds.

Increase in net assets of Internal Service Funds	56,821
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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Loan principal retirement	239,000	
Decrease in accrued interest payable	2,233	
Decrease in accrued compensated absences	<u>3,819</u>	
		<u>245,052</u>

Change in net assets of governmental activities	<u><u>\$ 1,019,655</u></u>
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See accompanying notes to financial statements.

Lake County, Michigan

Proprietary Funds

STATEMENT OF NET ASSETS

December 31, 2004

	Business-type Activities			
	Treasurer's Unrestricted	Delinquent Tax Revolving	Nonmajor Enterprise Funds	Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,028,378	\$ 1,127,113	\$ 11,707	\$ 2,167,198
Accounts receivable	-	2,939	18,000	20,939
Delinquent taxes receivable	11,439	831,690	-	843,129
Inventory	-	-	-	-0-
Due from other funds	165,000	200	-	165,200
Due from other governmental units				
Local	73,653	5,219	-	78,872
Total current assets	1,278,470	1,967,161	29,707	3,275,338
Noncurrent assets				
Investments	336,921	1,023,614	-	1,360,535
Advances to other funds	35,962	-	-	35,962
Total noncurrent assets	372,883	1,023,614	-0-	1,396,497
TOTAL ASSETS	1,651,353	2,990,775	29,707	4,671,835
LIABILITIES				
Current liabilities				
Accounts payable	10,128	-	5,561	15,689
Accrued liabilities	9,237	6,169	-	15,406
Due to others	518	8,385	-	8,903
Due to other funds	8,000	200	-	8,200
TOTAL LIABILITIES	27,883	14,754	5,561	48,198
NET ASSETS				
Restricted for employee benefits	-	-	-	-0-
Unrestricted	1,623,470	2,976,021	24,146	4,623,637
TOTAL NET ASSETS	\$ 1,623,470	\$ 2,976,021	\$ 24,146	\$ 4,623,637

See accompanying notes to financial statements.

Governmental Activities	
Internal Service Funds	
\$	156,136
	-
	-
	8,869
	341
	-
	165,346
	-
	-
	-0-
	165,346
	22,958
	-
	-
	6
	22,964
	138,975
	3,407
\$	142,382

Lake County, Michigan

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended December 31, 2004

	Business-type Activities			
	Treasurer's Unrestricted	Delinquent Tax Revolving	Nonmajor Enterprise Funds	Total
OPERATING REVENUES				
Charges for services	\$ 67,525	\$ 239,496	\$ 97,917	\$ 404,938
Interest and penalties on taxes	11,790	237,419	-	249,209
TOTAL OPERATING REVENUES	79,315	476,915	97,917	654,147
OPERATING EXPENSES				
Other	-	3,098	78,709	81,807
OPERATING INCOME	79,315	473,817	19,208	572,340
NONOPERATING REVENUES				
Interest revenue	31,704	16,490	9	48,203
INCOME BEFORE TRANSFERS	111,019	490,307	19,217	620,543
TRANSFERS (OUT)				
Transfers out	(263,920)	-	(11,462)	(275,382)
CHANGE IN NET ASSETS	(152,901)	490,307	7,755	345,161
Net assets, beginning of year	1,776,371	2,485,714	16,391	4,278,476
Net assets, end of year	\$ 1,623,470	\$ 2,976,021	\$ 24,146	\$ 4,623,637

See accompanying notes to financial statements.

Governmental Activities
Internal Service Funds
\$ 1,768,650
-
1,768,650
1,711,829
56,821
-
56,821
-
56,821
85,561
\$ 142,382

Lake County, Michigan

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended December 31, 2004

	Business-type Activities			
	Treasurer's Unrestricted	Delinquent Tax Revolving	Nonmajor Enterprise Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	\$ 89,965	\$ 411,366	\$ 81,678	\$ 583,009
Cash paid to suppliers	-	(1,394)	(82,563)	(83,957)
Cash paid to other funds - net	(138,513)	-	-	(138,513)
Cash receipts from local units	41,526	-	-	41,526
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(7,022)	409,972	(885)	402,065
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers out	(263,920)	-	(11,462)	(275,382)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	-	(1,023,614)	-	(1,023,614)
Maturity of investments	235,410	-	-	235,410
Interest revenue	31,704	16,490	-	48,194
NET CASH (USED) BY INVESTING ACTIVITIES	267,114	(1,007,124)	-0-	(740,010)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,828)	(597,152)	(12,347)	(613,327)
Cash and cash equivalents, beginning of year	1,032,206	1,724,265	24,054	2,780,525
Cash and cash equivalents, end of year	<u>\$ 1,028,378</u>	<u>\$ 1,127,113</u>	<u>\$ 11,707</u>	<u>\$ 2,167,198</u>
Reconciliation of operating income to net cash provided (used) by operating activities				
Operating income	\$ 79,315	\$ 473,817	\$ 19,217	\$ 572,349
Adjustments to reconcile operating income to net cash provided (used) by operating activities				
(Increase) decrease in receivables	6,417	(62,592)	(17,200)	(73,375)
Decrease in inventory	-	-	-	-0-
(Increase) in due from other funds	(165,000)	(200)	-	(165,200)
(Increase) in due from local units	35,372	(2,857)	-	32,515
Decrease in advances	26,487	-	-	26,487
Increase (decrease) in accounts payable	2,085	(2,894)	(2,141)	(2,950)
Increase in accrued liabilities	2,148	6,169	-	8,317
(Decrease) in due to others	(1,846)	(421)	-	(2,267)
Increase (decrease) in due to other funds	8,000	(1,050)	(761)	6,189
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (7,022)</u>	<u>\$ 409,972</u>	<u>\$ (885)</u>	<u>\$ 402,065</u>

See accompanying notes to financial statements.

Governmental
Activities
<u>Internal</u>
Service
<u>Funds</u>

\$	1,768,650
	(17,872)
	(1,685,333)
	<u>-</u>

65,445

-

-

-

-

-0-

65,445

90,691

\$	<u>156,136</u>
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\$	56,821
----	--------

690

8,402

-

-

-

(468)

-

-

-

\$	<u>65,445</u>
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Lake County, Michigan
Fiduciary Funds
STATEMENT OF NET ASSETS
December 31, 2004

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 686,595
Due from governmental units - State	<u>62,214</u>
TOTAL ASSETS	<u><u>\$ 748,809</u></u>
LIABILITIES	
Undistributed collections payable	\$ 398,772
Deposits payable	36,850
Due to other governmental units	
Federal/State	157,096
Local	62,778
Due to other funds	18,940
Due to others	<u>74,373</u>
TOTAL LIABILITIES	<u><u>\$ 748,809</u></u>

See accompanying notes to financial statements.

Lake County, Michigan

Component Unit Funds

COMBINING STATEMENT OF NET ASSETS

December 31, 2004

	Road Commission	Council on Aging	Drainage Districts	Total Component Units
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,173,135	\$ 83,642	\$ 2,274	\$ 1,259,051
Accounts receivable				
State trunkline maintenance	39,989	-	-	39,989
Due on county road agreements	41,229	-	-	41,229
Motor vehicle highway funds	438,204	-	-	438,204
Taxes receivable	-	264,633	-	264,633
Special assessments receivable	-	-	2,788	2,788
Inventories				
Equipment material and parts	46,711	-	-	46,711
Road materials	278,955	-	-	278,955
Total current assets	2,018,223	348,275	5,062	2,371,560
Noncurrent assets				
Capital assets, net	2,685,847	-	-	2,685,847
TOTAL ASSETS	4,704,070	348,275	5,062	5,057,407
LIABILITIES				
Current liabilities				
Accounts payable	46,009	13,105	-	59,114
Accrued liabilities	14,101	-	-	14,101
Deferred revenue	42,299	264,633	-	306,932
Current portion of compensated absences	21,376	-	-	21,376
Total current liabilities	123,785	277,738	-0-	401,523
Noncurrent liabilities				
Compensated absences	192,383	-	-	192,383
TOTAL LIABILITIES	316,168	277,738	-0-	593,906
NET ASSETS				
Invested in capital assets	2,685,847	-	-	2,685,847
Restricted for other purposes	1,702,055	70,537	5,062	1,777,654
TOTAL NET ASSETS	\$ 4,387,902	\$ 70,537	\$ 5,062	\$ 4,463,501

See accompanying notes to financial statements.

Lake County, Michigan

Component Unit Funds

STATEMENT OF ACTIVITIES

Year Ended December 31, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Drainage Districts	\$ -	\$ -	-	2,160	\$ 2,160
Council on Aging	234,000	-	-	-	(234,000)
Road Commission	3,178,667	620,942	2,937,032	460,789	840,096
TOTALS	<u>\$ 3,412,667</u>	<u>\$ 620,942</u>	<u>\$ 2,937,032</u>	<u>\$ 462,949</u>	608,256
General revenues					
Taxes					250,272
Investment earnings					12,720
Gain on sale of assets					116,669
Total general revenues and transfers					<u>379,661</u>
CHANGE IN NET ASSETS					987,917
Net assets, beginning of year					<u>3,475,584</u>
Net assets, end of year					<u>\$ 4,463,501</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The County of Lake, Michigan was organized in 1872 and covers an area of approximately 572 square miles with the County seat located in the Village of Baldwin, Michigan. The County operates under elected Board of Commissioners seven (7) members and provides services to its approximately 8,500 residents in many areas including law enforcement, administration of justice, community enrichment and development, public works, health and welfare, and recreation and culture. Education is provided to citizens through three (3) local School Districts, four (4) Intermediate School Districts, and a Community College located in the County. The School Districts and College are separate governmental entities whose financial statements are not included herein in accordance with the National Council on Governmental Accounting (NCGA) Statement 3.

The financial statements of the County have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to County governments, except for the exclusion of a discretely presented component unit (Road Commission). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The County's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, The Financial Reporting Entity; and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements present the financial activities of Lake County (primary government) and its component units. The component units described in Sections 2 and 3 below should be included in the County's reporting entity because of the significance of their operational or financial relationship with the County.

2. Blended Component Units

The Lake County Building Authority is governed by a five (5) member Board appointed by the County Board of Commissioners. Although it is legally separate from the County, the Lake County Building Authority is reported as if it were part of the (blended) primary government because its sole purpose is to finance and construct the County's public buildings.

3. Discretely Presented Component Units

These component units are reported in a separate column to emphasize that, while legally separate, Lake County remains financially accountable for these entities, or the nature and significance of the relationship between these entities and Lake County is such that exclusion of these entities would render the financial statements misleading or incomplete.

The Lake County Road Commission is responsible for the maintenance and construction of the County road system. The Road Commission operations are financed primarily from the State distribution of gas and weight taxes, Federal financial assistance, and contributions from other local government units within the County. The three (3) Board Members of the Road Commission are elected. This component unit is audited individually and complete financial statements may be obtained from the Road Commission's administrative office.

The Lake County Council on Aging is governed by 19 appointees from various local aging assistance agencies. One of the members is from the Lake County Board of Commissioners. The Council on Aging is a nonprofit corporation dedicated to identifying the needs of seniors of the County and establishing long and short range goals to address those needs. The County Treasurer acts as a fiscal agent of all funds generated by a special millage and handles all financial aspects of the Council. The Lake County Council on Aging was not audited separately.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Discretely Presented Component Units - continued

The Lake County Drainage Districts come under the jurisdiction of the Lake County Road Commissioner due to the fact Lake County does not have a Drain Commissioner. This includes planning, developing, and maintaining surface water drainage systems. A complete file of finance, construction, and maintenance is maintained for each of the drains. The Road Commissioner has authority to spend up to \$2,500 per mile on drain maintenance and may borrow up to \$300,000 from any source to provide for maintenance of a drain without Board of Commissioner approval and without going through the Municipal Finance Division, State of Michigan. The Road Commissioner has authority to levy special assessments on properties benefiting from maintenance. The Drainage Districts are financially accountable to the County because bond issuances greater than \$300,000 require County authorization and are backed by the full faith and credit of the County.

The Lake County Drainage Districts have not been audited separately. Combining component unit statements are included as part of these general purpose financial statements to summarize all the funds and the account group of the Drainage Districts.

4. Joint Ventures

The District 10 Health Department is a joint venture between 10 counties as detailed in the formation agreement between the counties, and was established to provide public health services to the 10 county regions. A copy of the agreement can be obtained at the County's clerk's office. Lake County appoints two (2) of the 20 members. All ten (10) Counties provide annual appropriations and pass-through the statutory amount of cigarette tax funding to subsidize operations. Lake County's contribution for the year ended December 31, 2004, was \$93,736.

5. Jointly Governed Organizations

The West Michigan Community Mental Health System provides comprehensive mental health services to Lake, Mason, and Oceana Counties. Operating revenues are derived from Federal, State, and local governments as well as from fees for services. The West Michigan Community Mental Health System is governed by a twelve (12) member Board appointed by the Board of Commissioners of the three (3) Counties it services. Lake County appropriated \$55,250 as its operating contribution to the West Michigan Community Mental Health System for the year ended December 31, 2004. A copy of their audit may be obtained at their administrative offices.

The West Michigan Area Agency on Aging provides comprehensive services to older individuals residing in ten (10) west Michigan counties. Operating revenues are derived from Federal, State, and local governments as well as fees for services. The West Michigan Area Agency on Aging is governed by a twenty (20) member Board appointed by the Board of Commissioners of the ten (10) Counties it services. A copy of the Area Agency on Aging audit may be obtained at their administrative offices.

Lake County, in conjunction with twenty-two (22) other Counties, has entered into an agreement that created the Northern Michigan Substance Abuse Commission. This organization's Board is composed of thirty-six (36) members, of which one (1) is appointed by Lake County. The County's financial responsibility is to pass through a portion of the Convention and Tourism revenues received to the Commission. For the year ended December 31, 2004, the County passed through \$28,775.

Five CAP, Inc. is a non-profit corporation formed under the laws of the State of Michigan. This organization's Board is composed of fifteen (15) members, of which one (1) is appointed by Lake County. The organization receives all of its funding from State and Federal grants and, as a result, the County has no financial responsibility other than potential liability related to appropriate use of the Federal funds passed through to Five CAP, Inc. The county passed through to Five CAP, Inc. as a subrecipient \$192,510 in Federal grant dollars.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government and its component units as a whole. All nonfiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and its component units and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the County's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The major funds of the County are:

- a. The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Sheriff's Road Patrol Fund is used to report road patrol services that are financed primarily by taxes and expenditures within the fund all to be used for the operation of the system.
- c. The Revenue Sharing Reserve Fund was established in 2004 to account for the shift of State Revenue Sharing dollars from State to local funding.
- d. The Jail/TRV Fund is used to report jail services that are financed primarily by Federal and State grants and expenditures within the fund all to be used for the operation of the system.
- e. The Ambulance Fund is used to report ambulance services that are financed primarily by taxes and expenditures within the fund all to be used for the operation of the ambulance system.
- f. The Delinquent Tax Revolving Funds account for money advanced by the County to other local taxing units and various county funds to pay for their delinquent real property taxes. Revenues are generated by the collection of the delinquent real property taxes, penalties, and interest.
- g. The Treasurer's Unrestricted Fund accounts for interest collected on delinquent taxes and are subsequently relinquished to the proper authority.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

7. Measurement Focus

The government-wide, proprietary, and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for fiduciary funds since assets equal liabilities.

8. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed.

9. Cash and Cash Equivalents

The County pools cash resources of various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest bearing securities and disclosed as part of the County's investments. Cash equivalents consist of temporary investments in certificates of deposit and mutual funds with a maturity from date of purchase of 90 days or less.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Investments

Investments consist of certificates of deposit and U.S. Treasury bonds with original maturities of greater than 90 days. Investments are recorded at market value in accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

11. Restricted Cash and Cash Equivalents

The County restricted cash and cash equivalents are funds on deposit with an escrow agent for the purchase of land.

12. Receivables

Receivables consist of amounts due from governmental units for various financial assistance programs and accounts receivable related to charges for services.

13. Inventories

Inventories of the Central Stores (Internal Service) Fund consist of miscellaneous office supplies on hand for resale, which are stated at the lower of first-in, first-out cost or market.

Inventories of the Road Commission (Component Unit) consist of various operating parts, supplies, and road material and are stated at cost, as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs, and operations as used.

14. Capital Assets

PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION)

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities and component unit columns. Capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than one year.

Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Land improvements	20 - 30 years
Buildings and improvements	10 - 50 years
Equipment	5 - 15 years
Vehicles	5 years

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

14. Capital Assets - continued

COMPONENT UNIT - ROAD COMMISSION

Capital assets which include property, equipment, and infrastructure assets (road, bridges, and similar items) are reported in the government-wide statements. Capital assets are defined by the Road Commission as assets with an initial, individual cost of more than \$1,000 and an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the Road Commission.

Costs to construct or substantially rehabilitate major networks and subsystems of infrastructure assets (roads, bridges, traffic signals, and similar items) in 2004 were capitalized and are reported as infrastructure capital assets in the Statement of Net Assets. Infrastructure capital assets will continue to be capitalized prospectively, beginning with the year ended December 31, 2004.

Depreciation is recorded over the estimated useful lives (ranging from five to fifty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure follows:

Buildings	30 - 50 years
Road equipment	5 - 8 years
Shop equipment	10 years
Office equipment	4 - 10 years
Engineering equipment	4 - 10 years
Infrastructure - bridges	12 - 50 years
Infrastructure - roads	5 - 30 years
Infrastructure - traffic signals	15 years

15. Long-Term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

16. Advances to Other Funds

Long-term advances from certain funds to other funds or component units are made to finance new activities during their initial operations and to finance capital acquisitions. For the governmental fund types, fund balance is reserved for the amount of advances made to other funds to reflect the fund balance not currently available for expenditure.

17. Interfund Transactions

During the course of normal operations, the County has numerous transactions between funds and component units, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Internal Service Funds are used to record charges for services to all County departments and funds as operating transfers or operating revenue. All County funds record these payments to the Internal Service Funds as operating transfers or operating expenditures/expenses.

18. Accrued Compensated Absences

In accordance with County personnel policies and/or contracts negotiated with the various employee groups of the County, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the respective personnel policies and/or contracts.

Vested vacation and sick leave earned as of December 31, 2004, including related payroll taxes, is recorded in the government-wide financial statements.

19. Budgets and Budgetary Accounting

The General and Special Revenue Fund budgets shown in the financial statements were prepared on a basis consistent with accounting principles generally accepted in the United States of America and are not significantly different from the modified accrual basis used to reflect actual results. The County employs the following procedures in establishing the primary government budgetary data reflected in the financial statements.

Public Act 493 of 2000 amended certain budgeting related sections of the Uniform Budgeting and Accounting Act and was given immediate effect. The amendments included the rescission of the requirement for reporting debt service fund budgets in the financial statements. As a result, the Debt Service Funds' budgets are no longer included in the financial statements.

- a. Prior to October 1, County departments in conjunction with the Clerk's Office, prepare and submit their proposed operating budgets to the Ways and Means Committee who reviews and makes recommendations for the fiscal year commencing the following January 1. The operating budgets include proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to December 31, the budgets are legally enacted through passage of a budget resolution.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

19. Budgets and Budgetary Accounting - continued

Budget to actual comparison statements are not required of discretely presented component units and have been excluded from the General Purpose Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual.

- d. The budgets are legally adopted at the activity, functional, and account level for the General Fund and the fund level for the Special Revenue Fund. Budgetary transfers between funds and amendments to total fund budgets are not permitted without Board approval. For control purposes, all fund budgets are maintained at the activity and account level. The Clerk is authorized to transfer budget amounts between accounts without Board approval.
- e. Budgets for certain Capital Projects Funds are made on a project basis spanning more than one year.
- f. The County does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. All unexpended appropriations lapse at year-end.
- g. Budgeted amounts are reported as originally adopted or as amended by the Board of Commissioners during the year. Individual amendments were not material to the original appropriations that were adopted.

20. Comparative Data

Comparative data for the year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

21. Federal Programs

Federal Programs are accounted for in specific Special Revenue Funds or a part of the various fund types to which the programs pertain. The County has not integrated its Single Audit Reports and financial data as part of the financial statements. The Single Audit Reports and financial data will be issued under separate cover as supplementary information to the General Purpose Financial Statements.

22. Accounting Change

As of January 1, 2004, the County implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (Statement) along with all related statements and interpretations. Some of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the County's overall financial position and results of operations has been included.
- Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the County's activities have been provided. Reconciliations are presented between the governmental fund level (modified accrual) and government-wide (full accrual) statements since their measurement focus is not the same.
- Capital assets reported on the statement of net assets include assets in the amount of \$11,653,688, which was previously reported in the General Fixed Assets Account Group. The government-wide statement of activities reflects depreciation expenses on the County's applicable capital assets.
- Long-term obligations reported on the statement of net assets include \$7,259,212, which was previously reported in the General Long-term Debt Account Group.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED22. Accounting Change - continued

- The fund financial statements focus on major funds rather than fund types.

This implementation has also required certain disclosures to be made in the notes to the financial statements concurrent with the implementation of Statement No. 34 based on GASB Statement No. 38. Certain note disclosures have been added and/or amended, including descriptions of activities of major funds and interfund balances and transactions, and various other disclosures.

NOTE B: POOLING OF CASH AND INVESTMENTS AND CASH OVERDRAFT

The County utilizes pooled cash accounts for approximately thirty-four funds. Cash overdrafts of individual funds as of December 31, 2004, are as follows:

<u>Fund</u>	<u>Pooled Cash Overdraft</u>	<u>Nonpooled Cash and Cash Equivalents</u>	<u>Financial Statements</u>
PRIMARY GOVERNMENT			
Special Revenue Funds			
Pleasant Plains Officer	\$(48,596)	\$ -	\$(48,596)
Yates Township Officer	(12,289)	-	(12,289)
Crime Victims	(13,110)	-	(13,110)
T.R.V.	(626,152)	-	(626,152)
Friend of the Court	(53,907)	-	(53,907)
Law Library	(5,483)	-	(5,483)
Secondary Road Patrol	(9,122)	-	(9,122)
Child Care Probate	(188,542)	13,000	(175,542)
Capital Projects Fund			
TRV Capital Projects	(57,740)	-	(57,740)
Internal Service Fund			
Central Stores	(5,201)	-	(5,201)
TOTAL REPORTING ENTITY	\$(1,020,142)	\$ 13,000	\$(1,007,142)

NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS

The County utilizes various pooled cash accounts and investments for approximately forty funds. The County's pooled cash accounts consist of a common checking account and mutual funds.

The County's pooled cash accounts and investments are utilized by the General Fund, Special Revenue Funds, Capital Project Funds, Debt Service Funds, Internal Service Funds, (except for the Delinquent Tax Revolving Funds), Trust and Agency Funds, and the component unit funds. Each fund's portion of these pooled accounts is included in the cash and cash equivalents caption on the General Purpose balance sheet.

The other funds of the County utilize separate savings and interest bearing checking accounts. In addition, certificates of deposit and mutual funds are held separately by several of the County's funds.

In accordance with Michigan Compiled Laws, the County is authorized to invest in the following investment vehicles:

- Bonds and other direct obligations of the United States or an agency or instrumentality of the United States.

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
- c. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d. United States government or Federal agency obligation repurchase agreements.
- e. Bankers acceptances of United States banks.
- f. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

As of December 31, 2004, the carrying amounts and bank balance for each type of bank account are as follows:

<u>ACCOUNT TYPE</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
PRIMARY GOVERNMENT		
Checking	\$ 2,875,232	\$ 2,992,044
Savings	45,893	45,893
Money market	862,708	862,708
Escrow account	165,000	165,000
Certificates of deposit	<u>752,830</u>	<u>752,830</u>
Total primary government	4,701,663	4,818,475
COMPONENT UNITS		
Checking	1,258,951	1,315,563
FIDUCIARY FUNDS		
Checking	<u>686,595</u>	<u>683,118</u>
TOTAL REPORTING ENTITY	<u>\$ 6,647,209</u>	<u>\$ 6,817,156</u>

Deposits of the County are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the County. As of December 31, 2004, the primary government and component unit accounts were insured by the FDIC for \$438,130 and the amount of \$6,379,026 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the County held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

As of December 31, 2004, the carrying amounts and market values for each investment are as follows:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>
PRIMARY GOVERNMENT		
Insured or registered for which the securities are held by the County's agent in the County's name - U.S. Treasury Bonds	\$ 440,749	\$ 440,794
Uncategorized pooled investment funds	<u>90,793</u>	<u>90,949</u>
	<u>\$ 531,542</u>	<u>\$ 531,743</u>

The investments of U.S. Treasury Securities are not insured, but are backed by the full faith and credit of the Federal Government.

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the General Purpose balance sheet based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of December 31, 2004:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 3,061,977	\$ 1,259,051	\$ 686,595	\$ 5,007,623
Cash and cash equivalents - restricted	165,000	-	-	165,000
Investments	<u>2,008,104</u>	<u>-</u>	<u>-</u>	<u>2,008,104</u>
	<u>\$ 5,235,081</u>	<u>\$ 1,259,051</u>	<u>\$ 686,595</u>	<u>\$ 7,180,727</u>

The primary government cash and cash equivalents caption on the Statement of Net Assets include \$1,876 in imprest cash and the component units have \$100 of imprest cash.

Cash and cash equivalents - restricted

As of December 31, 2004, the County had funds on deposit with an escrow agent in the amount of \$165,000 for the purchase of land. The funds are held in the County's name and are included in all the applicable amounts noted above.

NOTE D: INTERFUND RECEIVABLES AND PAYABLES

The following schedule details primary government interfund receivables and payables at December 31, 2004:

Due from General Fund from:	
Revenue Sharing Fund	\$ 127,070
Fiduciary funds	16,940
Internal service funds	<u>6</u>
	<u>\$ 144,016</u>
Due to Treasurer's Unrestricted Fund from:	
Nonmajor governmental funds	<u>\$ 165,000</u>

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE D: INTERFUND RECEIVABLES AND PAYABLES - CONTINUED

Due to nonmajor governmental funds from:	
Fiduciary funds	\$ 2,000
Treasurer's unrestricted fund	<u>8,000</u>
	<u>\$ 10,000</u>
Due to internal service funds from:	
General Fund	<u>\$ 341</u>

NOTE E: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds, business-type funds, and component units have been eliminated.

Transfers to General Fund from:	
Revenue Sharing Fund	\$ 127,070
Treasurer's Unrestricted Fund	233,662
Nonmajor enterprise funds	<u>1,430</u>
	<u>\$ 362,162</u>
Transfers to nonmajor governmental funds from:	
General Fund	\$ 227,808
Sheriff Road Patrol Fund	20,551
Ambulance Fund	58,473
Nonmajor governmental funds	382,880
Treasurer's Unrestricted Fund	30,258
Jail TRV Fund	<u>408,039</u>
	<u>\$ 1,128,009</u>
Transfer to Jail TRV from:	
Nonmajor enterprise funds	<u>\$ 10,032</u>

NOTE F: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2004 was as follows:

PRIMARY GOVERNMENT

	Restated Balance <u>Jan. 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Dec. 31, 2004</u>
Governmental activities				
Capital Assets Not Being Depreciated				
Land	\$ 24,800	\$ -	\$ -	\$ 24,800
Capital Assets Being Depreciated				
Land improvements	98,002	-	-	98,002
Buildings and improvements	9,175,588	-	-	9,175,588
Furniture and equipment	659,897	40,225	-	700,122
Vehicles	<u>450,797</u>	<u>63,970</u>	<u>-</u>	<u>514,767</u>
Subtotal at historical cost	10,384,084	104,195	-0-	10,488,479

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE F: CAPITAL ASSETS - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

	Restated Balance Jan. 1, 2004	Additions	Deletions	Balance Dec. 31, 2004
Governmental activities - continued				
Less accumulated depreciation for:				
Land improvements	\$(32,839)	\$(8,350)	\$ -	\$(41,189)
Buildings and improvements	(210,529)	(6,388)	-	(216,917)
Furniture and equipment	(428,367)	(112,551)	-	(540,918)
Vehicles	(174,664)	(103,116)	-	(277,780)
Subtotal at historical cost	(846,399)	(230,405)	-0-	(1,076,804)
Net capital assets being depreciated	9,537,885	(126,210)	-0-	9,411,675
Capital assets, net	\$ 9,562,685	\$(126,210)	\$ -0-	\$ 9,436,475

Depreciation expense was charged to the following governmental activities:

General government	\$ 82,242
Public safety	140,694
Health and welfare	5,310
Recreation and cultural	125
Community and economic development	2,034
Total depreciation expense	\$ 230,405

COMPONENT UNITS

	Balance Jan. 1, 2004	Additions	Deletions	Balance Dec. 31, 2004
Component Unit - Road Commission				
Capital assets not being depreciated:				
Land	\$ 48,825	\$ -	\$ -	\$ 48,825
Depletable assets	29,709	-	-	29,709
Subtotal at historical cost	78,534	-0-	-0-	78,534
Capital assets being depreciated:				
Buildings	1,355,595	-	-	1,355,595
Road equipment	3,836,051	343,606	(203,154)	3,976,503
Shop equipment	133,943	-	-	133,943
Engineering equipment	27,167	-	-	27,167
Yard and storage equipment	142,200	-	-	142,200
Office equipment	81,194	-	-	81,194
Infrastructure - roads	-	917,634	-	917,634
Subtotal at historical cost	5,576,150	1,261,240	(203,154)	6,634,236

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE F: CAPITAL ASSETS - CONTINUED

COMPONENT UNITS - CONTINUED

	Balance Jan. 1, 2004	Additions	Deletions	Balance Dec. 31, 2004
Component Unit - Road Commission - continued				
Less accumulated depreciation for:				
Buildings	\$(421,018)	\$(28,729)	\$ -	\$(449,747)
Road equipment	(3,012,613)	(349,238)	198,710	(3,163,141)
Shop equipment	(93,389)	(4,576)	-	(97,965)
Engineering equipment	(18,309)	(1,105)	-	(19,414)
Yard and storage equipment	(84,210)	(13,193)	-	(97,403)
Office equipment	(70,358)	(993)	-	(71,351)
Infrastructure - roads	(-)	(127,902)	-	(127,902)
Subtotal at historical cost	(3,699,897)	(525,736)	198,710	(4,026,923)
Net capital assets being depreciated	<u>1,876,253</u>	<u>735,504</u>	<u>(4,444)</u>	<u>2,607,313</u>
Capital assets, net	<u>\$ 1,954,787</u>	<u>\$ 735,504</u>	<u>\$(4,444)</u>	<u>\$ 2,685,847</u>

NOTE G: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portions) of the County for the year ended December 31, 2004:

	Balance Jan. 1, 2004	Additions	Deletions	Balance Dec. 31, 2004	Amounts Due Within One Year
PRIMARY GOVERNMENT					
1991 Building Authority Bonds	\$ 1,175,000	\$ -	\$ 110,000	\$ 1,065,000	\$ 120,000
1998 Building Authority Bonds	5,939,000	-	129,000	5,810,000	134,000
Accrued sick and vacation	<u>145,213</u>	<u>-</u>	<u>3,819</u>	<u>141,394</u>	<u>35,349</u>
TOTAL PRIMARY GOVERNMENT	7,259,213	-0-	242,819	7,016,394	289,349
COMPONENT UNITS					
Road Commission					
Accumulated compensated absences	<u>217,883</u>	<u>-</u>	<u>4,124</u>	<u>213,759</u>	<u>21,376</u>
TOTAL REPORTING ENTITY	<u>\$ 7,477,096</u>	<u>\$ -0-</u>	<u>\$ 246,943</u>	<u>\$ 7,230,153</u>	<u>\$ 310,725</u>

PRIMARY GOVERNMENT

Significant details regarding outstanding long-term debt (including current portions) are presented below:

Lake County is party to three (3) long-term lease agreements for rental of State of Michigan Family Independence Agency building and the Courthouse and Jail from the Lake County Building Authority. These lease agreements stipulate that annual rentals will be paid by the County and the State government to the Building Authority in amounts sufficient to meet the annual principal and interest on bonds, which shall be pledged exclusively for that purpose. When all debt has been retired on these buildings, the rentals will cease, title to the buildings will be transferred to the County, and any cash balances remaining with the Building Authority will be returned to the County.

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE G: LONG-TERM DEBT - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

Bonds payable at December 31, 2004 are as follows:

\$2,000,000 Lake County Building Authority Bonds Series 1991, dated January 1, 1991 due in annual installments ranging from \$120,000 to \$190,000 through October 1, 2011, with interest of 7.0 percent, payable semi-annually.	\$ 1,065,000
\$6,500,000 Lake County Building Authority Bonds; Series 1998, Bond No. 1, 2, and 3, dated June 30, 1998; due in annual installments ranging from \$134,000 to \$396,000 through June 1, 2028; with interest of 4.75 percent, payable semi-annually.	<u>5,810,000</u>
	<u>\$ 6,875,000</u>

Accumulated Vacation and Sick

In accordance with County personnel policies and/or contracts negotiated with various employee groups of the County, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts.

The dollar amount of these vested rights, including related payroll taxes, amounted to \$141,394 at December 31, 2004.

The annual requirements to pay the general long-term debt principal and interest outstanding for the following bonds of the primary government at December 31, 2004 are as follows:

Primary Government

<u>Year Ending December 31,</u>	<u>Direct County Obligations</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 254,000	\$ 350,526
2006	271,000	335,760
2007	288,000	319,963
2008	305,000	303,133
2009	323,000	285,270
2010-2014	1,302,000	1,157,855
2015-2019	1,179,000	874,618
2020-2024	1,487,000	566,723
2025-2028	<u>1,466,000</u>	<u>178,125</u>
	<u>\$ 6,875,000</u>	<u>\$ 4,371,973</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE H: EMPLOYEE RETIREMENT SYSTEM

PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION)

The County participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple employer public retirement system. MERS is authorized and operated under State law, Act 135 of the Public Acts of 1945, as amended. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917. All full-time County employees are covered by the retirement system with exception of the Road Commission employees. The Road Commission employees are covered under a separate retirement plan.

The benefits and conditions outlined below are for general information only. Public Act 427 of 1984, as amended, covers the benefits and conditions of the Municipal Retirement systems.

Normal Retirement:

Age 50 with 25 or more years of credited service

Age 55 with 15 or more years of credited service

Age 60 with 10 or more years of credited service (reduced to 8 or 6 years depending on benefits)

Mandatory Retirement: None

Deferred Retirement:

The termination of membership before age 60, other than by retirement or death, after 10 years of credited service is considered a deferred retirement. Retirement allowance begins upon application and satisfaction of normal retirement requirements. The retirement allowance is computed in the same manner as a service retirement with the applicable benefit program being determined as of the date of termination of membership.

Rights to an allowance are forfeited if the member's accumulated contributions are withdrawn.

Benefit allowances are computed based on the applicable criteria as detailed within the plan. Death and disability benefits are also provided.

Funding Policy

Covered employees can contribute between 0% and 10% of their annual salary to the retirement system. Employees hired prior to 1985 may be allowed to contribute 3% of the first \$4,200 of annual compensation and 5% of portions over \$4,200. The County is required to contribute the remaining amounts necessary to fund the system.

Annual Pension Cost

For the year ended December 31, 2004 the County's annual pension cost of \$311,726 for the plan was equal to the County's required contribution. The annual required contribution was determined as part of an actuarial valuation of the plan as of December 31, 2002, using the entry actual age cost method. Significant actuarial assumptions used in determining the pension benefit obligation include (1) a rate of return on the investment of present and future assets of 8.0%, (2) projected salary increases of 5% per year compounded annually, attributable to inflation, (3) additional projected salary increases ranging from 0.0% to 4.2% per year, depending on age, attributable to seniority/merit. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE H: EMPLOYEE RETIREMENT SYSTEM - CONTINUED**PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION) - CONTINUED**Three (3) year trend information

	Year Ended December 31,		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Actuarial value of assets	\$ 3,546,115	\$ 3,787,174	\$ 4,207,303
Actuarial accrued liability (AAL) (entry age)	4,158,342	4,613,310	5,167,418
Unfunded AAL	612,227	826,136	960,115
Funded ratio	85%	82%	81%
Covered payroll	2,891,241	3,053,787	3,161,760
UAAL as a percentage of covered payroll	21%	27%	30%
Annual pension cost	205,610	285,258	311,726
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

COMPONENT UNIT - ROAD COMMISSION**Defined Benefit Pension Plan**Pension Plan

The Road Commission's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (888) 478-1919.

Funding Policy

The Road Commissions is required to contribute at an actuarially determined rate; the current rate is 14.24% of annual covered payroll. The Road Commission employees are required to contribute 2% of their annual covered payroll to the plan. The contribution requirements of the Road Commission are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Road Commission.

Annual Pension Cost

For the year ended December 31, 2004, the Road Commission's annual pension cost of \$188,444 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2002, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Road Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2003, the date of the latest actuarial valuation, was 30 years.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE H: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

COMPONENT UNIT - ROAD COMMISSION - CONTINUED

Three Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/2002	\$ 169,709	100 %	-
12/31/2003	173,049	100	-
12/31/2004	188,444	100	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/2001	\$ 4,420,963	\$ 5,958,793	\$ 1,537,830	74 %	\$ 1,110,505	138 %
12/31/2002	4,412,215	6,169,036	1,753,821	72	1,185,945	148
12/31/2003	4,627,401	6,392,274	1,764,873	72	1,219,313	145

NOTE I: CONTINGENT LIABILITIES

The County participates in a number of Federal and State assisted grant programs that are subject to compliance audits. The Single Audit of the Federal programs and the periodic program compliance audits of many of the State programs have not yet been conducted, completed, or resolved. Accordingly, the County's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the County expects such amounts, if any, to be immaterial.

There are various other legal actions pending against the County and its component units. Due to the inconclusive nature of many of the actions, it is not possible for Corporation Counsel to determine the probable outcome or a reasonable estimate of the potential liability, if any. These actions, for which a reasonable estimate can be determined of the potential liability, if any, are considered by County and/or component unit management and legal counsel to be immaterial.

NOTE J: RISK MANAGEMENT

PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION)

The County is a voluntary member of the Michigan Municipal Risk Management Authority which is organized under Public Act 138 of 1982, as amended as a governmental group self-insurance pool. Public Act 138 authorizes local units of government to exercise jointly any power, privilege, or authority which each might exercise separately.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE J: RISK MANAGEMENT - CONTINUED**PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION) - CONTINUED**

The administration of the Authority is directed by a nine (9) member Board of Directors composed of municipal representatives from the membership elected by the membership. The Board establishes the general policy of the Authority, creates and publishes rules to be followed by the Manager and Board, and is empowered with the authority to impose sanctions or terminate membership. The County, by resolution of the County Board of Commissioners, has designated a representative to the Authority to be responsible for the execution of all loss control measures, to ensure the payment of all annual and supplementary or other payment requirements, to ensure the filing of all required reports, and to act as a liaison between the County and the Authority.

The Authority provides risk management, underwriting, reinsurance, and claim services with member contributions allocated to meet these obligations. The Authority administers a risk management fund providing Lake County with loss protection for general and auto liability, motor vehicle physical damage, and property damage. Under most circumstances the County's maximum loss per occurrence is limited as follows:

<u>Maximum Retention Type of Risk</u>	<u>Per Occurrence</u>
General and auto liability	\$ 1,000
Motor vehicle physical damage	30,000 / vehicle
Property coverage	1,000

The Authority has established a Retained Risk Program to pay losses incurred by members that exceed individual retention levels and are not covered under existing reinsurance agreements. Losses incurred within the established limits are general obligations of the Authority. In the event that losses are incurred in excess of the resources available, the Authority as a whole (i.e., all constituent municipalities) is liable for the excess. The Authority may authorize dividends to individual members in the event that the members and individual fund balance is determined to be sufficient to do so.

Liability insurance claims are expenses as incurred. The liability is determined by the Michigan Municipal Risk Management Authority management based on an actuarial study performed using historical data and available insurance industry statistics. The liability includes a reserve for reported claims, and reported legal expenses as well as incurred but not reported claims.

The Authority has reserved fund balance to pay losses incurred by members that exceed individual retention levels and are not covered under existing reinsurance agreements. Losses incurred within the established limits are general obligations of the Authority. In the event that Lake County incurs a loss in excess of the resources available, the Authority as a whole (i.e., all constituent municipalities) is liable for the excess.

In addition, the Authority has accumulated resources to create and fund an internal Stop Loss Fund. The Stop Loss Fund was initiated to eliminate the need to purchase aggregate reinsurance for aggregate losses paid in excess of \$110,000, net of reinsurance recoveries for any one member in any one year. Aggregate paid losses in excess of \$110,000 net of reinsurance recoveries are paid entirely from the Internal Stop Loss Fund. If at any time the Stop Loss Fund is insufficient to fund Lake County's losses, the remaining liability shall become the responsibility of the Authority as a whole.

At December 31, 2004, the County had funds on deposit of \$(17,679) with the Authority and no reserves for reported claims.

The County also participates in a pool, the Michigan Counties' Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The County has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE J: RISK MANAGEMENT - CONTINUED

COMPONENT UNIT - ROAD COMMISSION

Self-Insurance Pool

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool). The insurance coverage includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, truck line liability and an umbrella policy. The amount the Road Commission pays annually is determined by the Administrator of the Pool and is based on miles of road, population and prior claim history of the Road Commission. In addition to premiums paid, the Road Commission is responsible for the first \$1,000 of legal expense incurred per occasion. All other risk is transferred to the Pool.

NOTE K: PROPERTY TAXES AND TAX RECEIVABLE

The County property tax is levied each December 1 on the taxable valuation of property located in the County as of the preceding December 31. On December 1, the property tax attachment is an enforceable lien on property and is payable by the last day of the next February.

Although the County's 2004 ad valorem tax is levied and collectible by December 31, 2004, it is the County's policy for all governmental fund types (with the exception noted below) to recognize revenues from the current tax levy in the year when the proceeds of the levy are budgeted and made available for financing County operations.

Beginning with the 2004 tax levy the State has mandated the creation of a Revenue Sharing Reserve fund into which one-third of the County's 2004 to 2006 ad valorem operating tax is being recognized. The purpose of the fund is to accumulate reserves of the County's own local funds from which an amount similar to Revenue Sharing payments, formerly made by the State, will be made back to the General Fund. As part of this process, the County's tax levy will be shifting over the next three years from winter to summer.

Taxable values are established annually by the local municipalities and are equalized by the County based on State statutes at an estimated percentage of the current market value. Real and personal property in Lake County for the 2004 levy had a taxable value of \$389,279,965 on which ad valorem taxes levied for County general operating purposes was 6.3087 mills. The Ambulance, Council on Aging, and Sheriff Road Patrol Funds levied 1.2922, 0.6798, and 2.8154 mills, respectively.

Taxes are collected by the various tax collecting units from the date of the levy and remitted to the County through the Trust and Agency Fund for distribution to the General, Special Revenue, and Component Unit Funds. The property tax levied December 1 are accrued as current tax receivable with the appropriate deferral, and are budgeted as revenue in the subsequent year in the General; Ambulance and Sheriff Road Patrol (Special Revenue); and the Council on Aging (Component Unit) Fund.

Taxes receivable recorded in the respective funds at December 31, 2004, are as follows:

Taxes Receivable	General	Special Revenue			Component Unit Council on Aging	Enterprise		Totals
		Revenue Sharing Reserve	Sheriff Road Patrol	Ambulance		Delinquent Tax Revolving Funds	Treasurer's Unrestricted	
Current	\$1,637,242	\$ 818,609	\$1,095,979	\$ 503,028	\$ 264,633	\$ -	\$ -	\$4,319,491
Delinquent	-	-	-	-	-	831,690	11,439	843,129
	<u>\$1,637,242</u>	<u>\$ 818,609</u>	<u>\$1,095,979</u>	<u>\$ 503,028</u>	<u>\$ 264,633</u>	<u>\$ 831,690</u>	<u>\$ 11,439</u>	<u>\$5,162,620</u>

The delinquent taxes receivable represents unpaid real property taxes in the Enterprise Funds.

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE K: PROPERTY TAXES AND TAX RECEIVABLE - CONTINUED

By agreement with the various taxing authorities, the County purchases at face value the real property taxes returned delinquent each March 1 and records a corresponding delinquent tax receivable.

These receivables are pledged to a bank for the payment of the notes payable, the proceeds of which were used to liquidate the amounts owed to the General and Special Revenue Funds and other taxing authorities. Subsequent collection on the delinquent taxes receivable, plus interest and administration fees thereon, and investment earnings are used to service the notes payable.

Any real property taxes not collected are charged back to the General and Special Revenue Funds and all other taxing authorities affected. Past experience has indicated that such chargebacks should not be material and, as a result there has been no establishment of an amount for uncollectible taxes receivable in any of the funds. This activity is accounted for in the Delinquent Tax Revolving Funds.

NOTE L: FUND DEFICITS

The following funds had a fund equity deficit at December 31, 2004:

	<u>Deficit</u>
PRIMARY GOVERNMENT	
Special Revenue Funds	
Child Care Probate	\$ 209,921
TRV	373,091
TRV Capital Projects	57,740

NOTE M: FUND EQUITY RESERVES AND DESIGNATIONS

Reserved fund balance and net assets are used to earmark a portion of equity to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use. Designated fund balance and net assets indicates that portion of fund balance and net assets that the County has set aside for specific purposes.

The following are the various fund balance reserves as of December 31, 2004:

PRIMARY GOVERNMENT	
Debt Service Funds	
Building Authority	
Reserved for bond principal and interest redemption	<u>\$ 634,202</u>

The following are the various fund balance designations as of December 31, 2004:

PRIMARY GOVERNMENT	
Designated for other purposes	
General Fund	
Designated for K-9 expenditures	<u>\$ 937</u>

The County has recorded various reserves of net assets in the proprietary funds that reflect management's plans for use of those funds. Since reserves are not appropriate for presentation on the face of the applicable statements of net assets, the reserves are listed here.

The following is the net asset reserve as of December 31, 2004:

Internal Service Funds	
Reserved for employee benefits	<u>\$ 138,975</u>

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE N: RESTRICTED NET ASSETS

Restrictions of net assets shown in the Government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of December 31, 2004:

PRIMARY GOVERNMENT

Governmental activities

Restricted for

Public safety

K-9 Expenditures	\$ 937
Sheriff Road Patrol	184,515
E911 Wireless Service	253,566
Drug Law Enforcement	35,788
D.A.R.E Program	5,648
Secondary Road Patrol	3,199
Criminal Justice Training	1,514
Local Officers Training	<u>4,187</u>

\$ 489,354

Other purposes

Employee Benefits	\$ 138,975
Revenue Sharing	691,539
Ambulance	398,021
Register of Deeds Automation	30,034
Crime Victims	10,261
Law Library	4,146
Circuit Court Marriage Council	<u>20,785</u>

\$ 1,293,761

COMPONENT UNITS

Other purposes

Restricted for

County Roads	\$ 1,702,055
Aging Programs	70,537
Drainage Projects	<u>5,062</u>

\$ 1,777,654

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE O: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

In the body of the financial statements, the County's budgeted expenditures in the General and Special Revenue Funds have been shown at the functional classification level. The approved budgets of the County have been adopted at the activity level for the General Fund and the fund level for the Special Revenue Funds.

During the year ended December 31, 2004, the County incurred expenditures in the General Fund and eight (8) Special Revenue Funds in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Public guardian	\$ 6,478	\$ 6,584	\$ 106
Elections	48,088	79,490	31,402
Equalization	172,934	185,607	12,673
Treasurer	160,649	163,406	2,757
Courthouse and grounds	338,559	340,911	2,352
Sheriff - general	205,411	209,675	4,264
ORV	30,000	30,953	953
Jail kitchen	64,000	84,611	20,611
Planning appropriation	3,820	4,120	300
Veterans burials	4,800	8,650	3,850
Capital outlay	6,250	10,636	4,386
Special Revenue Funds			
Revenue Sharing Fund	-	127,070	127,070
Friend of the Court	202,814	206,357	3,543
Building Inspection	201,044	280,404	79,360
D.A.R.E Program	-	9,663	9,663
Secondary Road Patrol	75,169	79,394	4,225
2001 Housing Program	50	1,591	1,541
Child Care Probate	444,873	465,229	20,356
F.I.A Building	39,200	212,886	173,686

REQUIRED SUPPLEMENTARY INFORMATION

Lake County, Michigan

General Fund

STATEMENT OF REVENUES AND OTHER FINANCING SOURCES -
BUDGET AND ACTUAL

For the Year Ended December 31, 2004

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Amended		
Taxes				
Current and delinquent property taxes	\$ 2,280,600	\$ 2,280,600	\$ 2,335,684	\$ 55,084
Tax reverted land	5,000	5,000	1,372	(3,628)
Payments in lieu of taxes	109,606	109,606	141,743	32,137
Total taxes	2,395,206	2,395,206	2,478,799	83,593
Licenses and permits				
Gun permits	200	200	2,574	2,374
Dog licenses	4,850	4,850	7,627	2,777
Marriage license fees	200	200	395	195
Total licenses and permits	5,250	5,250	10,596	5,346
Intergovernmental - Federal/State				
Emergency management	9,000	9,000	22,143	13,143
Probate Judge's salary	150,623	150,623	136,537	(14,086)
Circuit Court Judge's salary	8,917	8,917	6,516	(2,401)
Juvenile officer	27,317	27,317	27,317	-0-
District Court case flow assistance	5,000	5,000	4,208	(792)
Court Equity	91,800	91,800	103,761	11,961
Voter aid registration	3,800	3,800	3,963	163
Cigarette tax	5,467	5,467	6,518	1,051
Marine safety	-	13,887	11,858	(2,029)
Snowmobile grant	-	30,223	16,975	(13,248)
ORV grant	30,000	30,000	28,068	(1,932)
LLEBG funds	-	-	4,500	4,500
Homeland security grants	-	71,751	50,901	(20,850)
F.I.A. grant / P.A. attorney	-	6,000	4,013	(1,987)
Remonumentation	31,032	31,032	29,048	(1,984)
Convention and tourism tax	58,499	58,499	57,550	(949)
State revenue sharing	218,000	218,000	106,931	(111,069)
Liquor law enforcement	8,500	8,500	9,367	867
4-H tobacco prevention grant	10,500	13,592	13,590	(2)
Total intergovernmental - Federal/State	658,455	783,408	643,764	(139,644)
Charges for services				
Circuit Court costs	14,622	14,622	13,335	(1,287)
Circuit Court services	7,020	7,020	8,308	1,288
District Court costs	257,905	257,905	199,585	(58,320)
District Court services	50,376	50,376	63,251	12,875

Lake County, Michigan

General Fund

STATEMENT OF REVENUES AND OTHER FINANCING SOURCES -
BUDGET AND ACTUAL - CONTINUED

For the Year Ended December 31, 2004

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Amended		
Charges for services - continued				
Probate Court services	\$ 25,928	\$ 25,928	\$ 27,519	\$ 1,591
Bond processing fees	2,000	2,000	661	(1,339)
County Treasurer services	5,000	5,000	(2,114)	(7,114)
County Clerk services	4,900	4,900	8,893	3,993
Register of Deeds services	153,000	153,000	156,676	3,676
Inmate housing	90,000	90,000	52,703	(37,297)
Sheriff department services	22,500	22,500	34,596	12,096
Administrative services	193,339	193,339	101,340	(91,999)
Other	7,056	7,056	6,982	(74)
Total charges for services	833,646	833,646	671,735	(161,911)
Fines and forfeits				
Bond forfeitures	16,462	16,462	10,420	(6,042)
Interest and rents				
Interest on investments	5,000	5,000	5,340	340
Other				
Donations	-	4,450	2,865	(1,585)
Sale of land	350	350	3,569	3,219
Other sales	6,300	6,300	5,433	(867)
Insurance dividends	20,000	20,000	14,748	(5,252)
Reimbursements and refunds	29,500	31,500	52,947	21,447
Other	50,300	59,095	58,098	(997)
Total other	106,450	121,695	137,660	15,965
Total revenues	4,020,469	4,160,667	3,958,314	(202,353)
OTHER FINANCING SOURCES				
Operating transfers in				
Commissary	-	-	1,430	1,430
Treasurer's unrestricted fund	224,721	258,383	233,662	(24,721)
Revenue sharing reserve fund	-	-	127,070	127,070
Total other financing sources	224,721	258,383	362,162	103,779
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>\$ 4,245,190</u>	<u>\$ 4,419,050</u>	<u>\$ 4,320,476</u>	<u>\$ (98,574)</u>

Lake County, Michigan

General Fund

STATEMENT OF EXPENDITURES AND OTHER FINANCING USES BY ACTIVITY -
BUDGET AND ACTUAL

For the Year Ended December 31, 2004

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Amended		
General government				
Board of Commissioners	\$ 235,256	\$ 240,836	\$ 236,938	\$ 3,898
Trial Court	764,606	764,606	753,593	11,013
Circuit Court	1,725	1,575	1,344	231
Jury board	4,050	4,050	1,883	2,167
Public guardian	6,478	6,478	6,584	(106)
Elections	48,088	48,088	79,490	(31,402)
Accounting	67,090	71,950	62,663	9,287
Legal counsel	16,000	16,000	14,323	1,677
Clerk	201,797	201,797	197,033	4,764
Equalization	173,034	172,934	185,607	(12,673)
Prosecuting Attorney	198,586	197,653	192,482	5,171
Register of Deeds	61,983	61,983	44,007	17,976
Surveying/Remonumentation	32,665	32,665	32,665	-0-
Central copying	21,500	21,500	9,594	11,906
Treasurer	160,871	160,649	163,406	(2,757)
Cooperative extension	63,843	66,935	64,798	2,137
Courthouse and grounds	349,059	338,559	340,911	(2,352)
Drain commissioner	900	900	-	900
Soil conservation	2,500	2,500	2,500	-0-
Total general government	2,410,031	2,411,658	2,389,821	21,837
Public safety				
Sheriff - general	205,411	205,411	209,675	(4,264)
Marine safety	-	16,467	15,415	1,052
Snowmobile safety	-	30,223	21,475	8,748
ORV	30,000	30,000	30,953	(953)
Jail building and grounds	868,849	867,799	822,720	45,079
Jail kitchen	64,000	64,000	84,611	(20,611)
Emergency management	36,369	108,120	93,269	14,851
Animal control	114,389	118,689	112,628	6,061
Total public safety	1,319,018	1,440,709	1,390,746	49,963
Community and economic development				
Planning department	5,100	5,100	3,531	1,569
Plat board	150	150	-	150
Planning appropriation	3,820	3,820	4,120	(300)
	9,070	9,070	7,651	1,419

Lake County, Michigan

General Fund

STATEMENT OF EXPENDITURES AND OTHER FINANCING USES BY ACTIVITY -
BUDGET AND ACTUAL - CONTINUED

For the Year Ended December 31, 2004

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Amended		
Health and welfare				
District Health department	95,004	95,004	93,736	\$ 1,268
Substance abuse appropriation	30,000	30,000	28,775	1,225
Medical examiner	31,588	31,588	29,782	1,806
Veterans burials	4,800	4,800	8,650	(3,850)
Mental Health	55,250	55,250	55,250	-0-
Family Independence Agency	26,500	26,500	-	26,500
Total health and welfare	243,142	243,142	216,193	26,949
Other				
Postage	38,629	38,629	30,190	8,439
Other	9,300	46,659	23,172	23,487
Total other	47,929	85,288	53,362	31,926
Capital outlay	-	6,250	10,636	(4,386)
TOTAL EXPENDITURES	4,029,190	4,196,117	4,068,409	127,708
OTHER FINANCING USES				
Operating transfers to other funds				
Friend of the Court	-	6,933	11,808	(4,875)
Child Care Probate Fund	216,000	216,000	216,000	-0-
TOTAL OTHER FINANCING USES	216,000	222,933	227,808	(4,875)
TOTAL EXPENDITURES AND OTHER FINANCING USES	\$ 4,245,190	\$ 4,419,050	\$ 4,296,217	\$ 122,833

Lake County, Michigan

Sheriff Road Patrol

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 1,016,840	\$ 1,016,840	\$ 1,036,105	\$ 19,265
Intergovernmental - Federal/State	-	6,898	15,073	8,175
Other	-	8,572	16,616	8,044
TOTAL REVENUES	1,016,840	1,032,310	1,067,794	35,484
EXPENDITURES				
Current				
Public safety	886,508	880,644	862,743	17,901
Capital outlay	7,500	28,834	24,926	3,908
TOTAL EXPENDITURES	894,008	909,478	887,669	21,809
EXCESS OF REVENUES OVER EXPENDITURES	122,832	122,832	180,125	57,293
OTHER FINANCING USES				
Operating transfer out	(122,832)	(122,832)	(20,551)	102,281
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	-0-	-0-	159,574	159,574
Fund balances, beginning of year	24,941	24,941	24,941	-0-
Fund balances, end of year	\$ 24,941	\$ 24,941	\$ 184,515	\$ 159,574

Lake County, Michigan

Jail TRV

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental - Federal/State	\$ 1,850,000	\$ 1,850,000	\$ 1,922,460	\$ 72,460
Interest and rents	350,000	350,000	-	(350,000)
Other	41,000	41,000	37,200	(3,800)
TOTAL REVENUES	2,241,000	2,241,000	1,959,660	(281,340)
EXPENDITURES				
Current				
Public safety	1,947,104	1,953,256	1,757,312	195,944
Capital outlay	24,000	17,848	10,762	7,086
TOTAL EXPENDITURES	1,971,104	1,971,104	1,768,074	203,030
EXCESS OF REVENUES OVER EXPENDITURES	269,896	269,896	191,586	(78,310)
OTHER FINANCING USES				
Operating transfer in	145,104	145,104	10,032	(135,072)
Operating transfer out	(415,000)	(415,000)	(408,039)	6,961
TOTAL OTHER FINANCING USES	(269,896)	(269,896)	(398,007)	(128,111)
EXCESS OF REVENUES (UNDER) EXPENDITURES AND OTHER FINANCING USES	-0-	-0-	(206,421)	(206,421)
Fund (deficits), beginning of year	(166,670)	(166,670)	(166,670)	-0-
Fund (deficits), end of year	<u>\$ (166,670)</u>	<u>\$ (166,670)</u>	<u>\$ (373,091)</u>	<u>\$ (206,421)</u>

Lake County, Michigan

Revenue Sharing Reserve

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ -	\$ -	\$ 818,609	\$ 818,609
Intergovernmental - Federal/State	-	-	-	-0-
Charges for services	-	-	-	-0-
Interest and rents	-	-	-	-0-
Other	-	-	-	-0-
TOTAL REVENUES	-0-	-0-	818,609	818,609
EXPENDITURES				
Current				
General government	-	-	-	-0-
EXCESS OF REVENUES OVER EXPENDITURES	-0-	-0-	818,609	818,609
OTHER FINANCING USES				
Operating transfer out	-	-	(127,070)	(127,070)
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	-0-	-0-	691,539	691,539
Fund balances, beginning of year	-	-	-	-0-
Fund balances, end of year	\$ -0-	\$ -0-	\$ 691,539	\$ 691,539

Lake County, Michigan

Ambulance

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 476,900	\$ 476,900	\$ 475,748	\$ (1,152)
Interest	100	100	339	239
TOTAL REVENUES	477,000	477,000	476,087	(913)
EXPENDITURES				
Current				
Health and welfare	267,860	267,860	273,531	(5,671)
EXCESS OF REVENUES OVER EXPENDITURES	209,140	209,140	202,556	(6,584)
OTHER FINANCING USES				
Operating transfer out	(209,140)	(209,140)	(58,473)	150,667
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	-0-	-0-	144,083	144,083
Fund balances, beginning of year	253,938	253,938	253,938	-0-
Fund balances, end of year	<u>\$ 253,938</u>	<u>\$ 253,938</u>	<u>\$ 398,021</u>	<u>\$ 144,083</u>

OTHER SUPPLEMENTARY INFORMATION

Lake County, Michigan
Nonmajor Governmental Funds
COMBINING BALANCE SHEET
December 31, 2004

	Special		
	Pleasant Plains Township Officer	Yates Township Officer	Emergency 911
ASSETS			
Cash and cash equivalents	\$ (48,596)	\$ (12,289)	\$ 10,857
Cash and cash equivalents - restricted	-	-	-
Investments	-	-	-
Receivables			
Accounts	-	-	17,703
Due from other funds	-	-	-
Due from governmental units			
Federal/State	-	-	-
Local	51,579	14,201	-
TOTAL ASSETS	<u>\$ 2,983</u>	<u>\$ 1,912</u>	<u>\$ 28,560</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 30	\$ 12	\$ 14,885
Accrued liabilities	2,953	1,899	13,673
Due to other governmental units - Federal/State	-	-	-
Due to other funds	-	-	-
Advance from other funds	-	-	-
Deferred revenue	-	-	-
TOTAL LIABILITIES	<u>2,983</u>	<u>1,911</u>	<u>28,558</u>
FUND BALANCES (DEFICITS)			
Reserved for Debt Service	-	-	-
Unreserved, reported in:			
Special revenue funds	-	1	2
Capital projects funds	-	-	-
TOTAL FUND BALANCES	<u>-0-</u>	<u>1</u>	<u>2</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,983</u>	<u>\$ 1,912</u>	<u>\$ 28,560</u>

Revenue				
Education Grants	Friend of the Court	Social Services EZ/EC Pass Through Grant	Building Inspection	Register of Deeds Automation
\$ 14,915	\$ (53,907)	\$ -	\$ 70,174	\$ 30,034
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	59,227	229,000	-	-
-	-	-	-	-
<u>\$ 14,915</u>	<u>\$ 5,320</u>	<u>\$ 229,000</u>	<u>\$ 70,174</u>	<u>\$ 30,034</u>
\$ -	\$ 104	\$ -	\$ 1,801	\$ -
-	5,215	-	4,267	-
-	-	229,000	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-0-	5,319	229,000	6,068	-0-
-	-	-	-	-
14,915	1	-	64,106	30,034
-	-	-	-	-
<u>14,915</u>	<u>1</u>	<u>-</u>	<u>64,106</u>	<u>30,034</u>
<u>\$ 14,915</u>	<u>\$ 5,320</u>	<u>\$ 229,000</u>	<u>\$ 70,174</u>	<u>\$ 30,034</u>

Lake County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

December 31, 2004

	Special		
	Crime Victims	E911 Wireless Service	Drug Law Enforcement
ASSETS			
Cash and cash equivalents	\$ (13,110)	\$ 233,155	\$ 35,788
Cash and cash equivalents - restricted	-	-	-
Investments	-	-	-
Receivables			
Accounts	-	20,558	-
Due from other funds	-	-	-
Due from governmental units			
Federal/State	23,371	-	-
Local	-	-	-
TOTAL ASSETS	<u>\$ 10,261</u>	<u>\$ 253,713</u>	<u>\$ 35,788</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 130	\$ 147	\$ -
Accrued liabilities	770	-	-
Due to other governmental units - Federal/State	-	-	-
Due to other funds	-	-	-
Advance from other funds	-	-	-
Deferred revenue	-	-	-
TOTAL LIABILITIES	900	147	-0-
FUND BALANCES (DEFICITS)			
Reserved for Debt Service	-	-	-
Unreserved, reported in:			
Special revenue funds	9,361	253,566	35,788
Capital projects funds	-	-	-
TOTAL FUND BALANCES	<u>9,361</u>	<u>253,566</u>	<u>35,788</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 10,261</u>	<u>\$ 253,713</u>	<u>\$ 35,788</u>

Revenue				
D.A.R.E. Program	Law Library	Secondary Road Patrol	2001 Housing Program	Criminal Justice Training Act
\$ 5,742	\$ (5,483)	\$ (9,122)	\$ 5,284	\$ 1,514
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	10,000	-	-	-
-	-	14,505	-	-
-	-	-	-	-
<u>\$ 5,742</u>	<u>\$ 4,517</u>	<u>\$ 5,383</u>	<u>\$ 5,284</u>	<u>\$ 1,514</u>
\$ 94	\$ 371	\$ -	\$ -	\$ -
-	-	2,184	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
94	371	2,184	-0-	-0-
-	-	-	-	-
5,648	4,146	3,199	5,284	1,514
-	-	-	-	-
<u>5,648</u>	<u>4,146</u>	<u>3,199</u>	<u>5,284</u>	<u>1,514</u>
<u>\$ 5,742</u>	<u>\$ 4,517</u>	<u>\$ 5,383</u>	<u>\$ 5,284</u>	<u>\$ 1,514</u>

Lake County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

December 31, 2004

	Special		
	Local Officers Training	Child Care Probate	Veteran's Trust
ASSETS			
Cash and cash equivalents	\$ 4,187	\$ (175,542)	\$ 1,389
Cash and cash equivalents - restricted	-	-	-
Investments	-	-	-
Receivables			
Accounts	-	-	-
Due from other funds	-	-	-
Due from governmental units			
Federal/State	-	-	-
Local	-	-	-
TOTAL ASSETS	<u>\$ 4,187</u>	<u>\$ (175,542)</u>	<u>\$ 1,389</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ -	\$ 31,954	\$ -
Accrued liabilities	-	2,425	-
Due to other governmental units - Federal/State	-	-	-
Due to other funds	-	-	-
Advance from other funds	-	-	-
Deferred revenue	-	-	-
TOTAL LIABILITIES	-0-	34,379	-0-
FUND BALANCES (DEFICITS)			
Reserved for Debt Service	-	-	-
Unreserved, reported in:			
Special revenue funds	4,187	(209,921)	1,389
Capital projects funds	-	-	-
TOTAL FUND BALANCES	<u>4,187</u>	<u>(209,921)</u>	<u>1,389</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,187</u>	<u>\$ (175,542)</u>	<u>\$ 1,389</u>

Revenue				Debt Service
Circuit Court Marriage Council	Housing Escrow Fund	Inmate Social Security	F.I.A. Building	Building Authority
\$ 20,785	\$ 1,131	\$ 3,864	\$ 169,539	\$ 424
-	-	-	-	-
-	-	-	-	633,778
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>\$ 20,785</u>	<u>\$ 1,131</u>	<u>\$ 3,864</u>	<u>\$ 169,539</u>	<u>\$ 634,202</u>
\$ -	\$ -	\$ -	\$ 478	\$ -
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-0-	-0-	-0-	478	-0-
-	-	-	-	634,202
20,785	1,131	3,864	169,061	-
-	-	-	-	-
<u>20,785</u>	<u>1,131</u>	<u>3,864</u>	<u>169,061</u>	<u>634,202</u>
<u>\$ 20,785</u>	<u>\$ 1,131</u>	<u>\$ 3,864</u>	<u>\$ 169,539</u>	<u>\$ 634,202</u>

Lake County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

December 31, 2004

	Capital		
	Ambulance Equipment Replacement	Other County Property	Courthouse Jail Renovation
ASSETS			
Cash and cash equivalents	\$ 305,057	\$ 96,449	\$ 242
Cash and cash equivalents - restricted	-	-	-
Investments	-	-	13,791
Receivables			
Accounts	-	-	-
Due from other funds	-	-	-
Due from governmental units			
Federal/State	-	35,697	-
Local	-	-	-
TOTAL ASSETS	<u>\$ 305,057</u>	<u>\$ 132,146</u>	<u>\$ 14,033</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Accrued liabilities	-	2,500	-
Due to other governmental units - Federal/State	-	-	-
Due to other funds	-	-	-
Advance from other funds	-	35,962	-
Deferred revenue	-	35,697	-
TOTAL LIABILITIES	-0-	74,159	-0-
FUND BALANCES (DEFICITS)			
Reserved for Debt Service	-	-	-
Unreserved, reported in:			
Special revenue funds	-	-	-
Capital projects funds	305,057	57,987	14,033
TOTAL FUND BALANCES	<u>305,057</u>	<u>57,987</u>	<u>14,033</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 305,057</u>	<u>\$ 132,146</u>	<u>\$ 14,033</u>

<u>Projects</u>	
<u>TRV Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
\$ (57,740)	\$ 634,741
165,000	165,000
-	647,569
-	38,261
-	10,000
-	361,800
-	65,780
<u>\$ 107,260</u>	<u>\$ 1,923,151</u>

\$ -	\$ 50,006
-	35,886
-	229,000
165,000	165,000
-	35,962
-	35,697
165,000	551,551
-	634,202
-	418,061
<u>(57,740)</u>	<u>319,337</u>
<u>(57,740)</u>	<u>1,371,600</u>
<u>\$ 107,260</u>	<u>\$ 1,923,151</u>

Lake County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended December 31, 2004

	Special		
	Pleasant Plains Township Officer	Yates Township Officer	Emergency 911
REVENUES			
Intergovernmental			
Federal/State	\$ -	\$ -	\$ -
Charges for services	90,187	41,120	260,085
Interest and rents	-	-	-
Other	-	-	-
TOTAL REVENUES	90,187	41,120	260,085
EXPENDITURES			
Current			
General government	-	-	-
Public safety	90,187	41,119	446,838
Health and welfare	-	-	-
Capital outlay	-	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	90,187	41,119	446,838
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-0-	1	(186,753)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	195,228
Operating transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-0-	-0-	195,228
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	-0-	1	8,475
Fund balances (deficits), beginning of year	-	-	(8,473)
Fund balances (deficits), end of year	<u>\$ -0-</u>	<u>\$ 1</u>	<u>\$ 2</u>

Revenue				
Education Grants	Friend of the Court	Social Services EZ/EC Pass Through Grant	Building Inspection	Register of Deeds Automation
\$ -	\$ 185,620	\$ 192,510	\$ -	\$ -
-	8,930	-	271,236	33,632
-	-	-	-	-
-	-	-	-	-
-0-	194,550	192,510	271,236	33,632
-	206,357	-	-	20,985
-	-	-	262,497	-
-	-	192,510	-	-
-	-	-	17,907	-
-	-	-	-	-
-0-	206,357	192,510	280,404	20,985
-0-	(11,807)	-0-	(9,168)	12,647
-	34,066	-	-	-
-	-	-	-	-
-0-	34,066	-0-	-0-	-0-
-0-	22,259	-0-	(9,168)	12,647
14,915	(22,258)	-	73,274	17,387
<u>\$ 14,915</u>	<u>\$ 1</u>	<u>\$ -0-</u>	<u>\$ 64,106</u>	<u>\$ 30,034</u>

Lake County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended December 31, 2004

	Special		
	Crime Victims	E911 Wireless Service	Drug Law Enforcement
REVENUES			
Intergovernmental			
Federal/State	\$ 24,933	\$ -	\$ -
Charges for services	-	140,588	-
Interest and rents	-	-	-
Other	-	-	56,749
TOTAL REVENUES	24,933	140,588	56,749
EXPENDITURES			
Current			
General government	-	-	-
Public safety	-	13,225	47,749
Health and welfare	25,487	-	-
Capital outlay	-	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	25,487	13,225	47,749
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(554)	127,363	9,000
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	-
Operating transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-0-	-0-	-0-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(554)	127,363	9,000
Fund balances (deficits), beginning of year	9,915	126,203	26,788
Fund balances (deficits), end of year	\$ 9,361	\$ 253,566	\$ 35,788

Revenue				
D.A.R.E. Program	Law Library	Secondary Road Patrol	2001 Housing Program	Criminal Justice Training Act
\$ -	\$ -	\$ 58,519	\$ -	\$ 4,063
-	2,500	-	945	-
-	-	-	-	-
10,999	-	-	-	-
10,999	2,500	58,519	945	4,063
-	6,354	-	-	-
9,663	-	79,394	-	3,197
-	-	-	1,591	-
-	-	-	-	-
-	-	-	-	-
9,663	6,354	79,394	1,591	3,197
1,336	(3,854)	(20,875)	(646)	866
-	8,000	20,551	-	-
-	-	-	-	-
-0-	8,000	20,551	-0-	-0-
1,336	4,146	(324)	(646)	866
4,312	-	3,523	5,930	648
<u>\$ 5,648</u>	<u>\$ 4,146</u>	<u>\$ 3,199</u>	<u>\$ 5,284</u>	<u>\$ 1,514</u>

Lake County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended December 31, 2004

	Special		
	Local Officers Training	Child Care Probate	Veteran's Trust
REVENUES			
Intergovernmental			
Federal/State	\$ -	\$ 207,374	\$ 295
Charges for services	4,187	19,265	-
Interest and rents	-	-	-
Other	-	-	-
TOTAL REVENUES	4,187	226,639	295
EXPENDITURES			
Current			
General government	-	-	-
Public safety	-	-	-
Health and welfare	-	465,229	-
Capital outlay	-	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	-0-	465,229	-0-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	4,187	(238,590)	295
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	216,000	-
Operating transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-0-	216,000	-0-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	4,187	(22,590)	295
Fund balances (deficits), beginning of year	-	(187,331)	1,094
Fund balances (deficits), end of year	\$ 4,187	\$ (209,921)	\$ 1,389

Revenue				Debt Service
Circuit Court Marriage Council	Housing Escrow Fund	Inmate Social Security	F.I.A. Building	Building Authority
\$ -	\$ -	\$ -	\$ -	\$ -
1,085	-	-	-	-
-	-	8	246,920	9,300
-	-	-	-	-
1,085	-0-	8	246,920	9,300
-	-	-	-	2,419
-	-	-	-	-
-	-	-	16,761	-
-	-	-	-	-
-	-	-	-	604,164
-0-	-0-	-0-	16,761	606,583
1,085	-0-	8	230,159	(597,283)
-	-	-	-	604,164
-	-	-	(196,125)	-
-0-	-0-	-0-	(196,125)	604,164
1,085	-0-	8	34,034	6,881
19,700	1,131	3,856	135,027	627,321
<u>\$ 20,785</u>	<u>\$ 1,131</u>	<u>\$ 3,864</u>	<u>\$ 169,061</u>	<u>\$ 634,202</u>

Lake County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended December 31, 2004

	Capital		
	Ambulance Equipment Replacement	Other County Property	Courthouse Jail Renovation
REVENUES			
Intergovernmental			
Federal/State	\$ -	\$ -	\$ -
Charges for services	-	-	-
Interest and rents	-	26,488	154
Other	-	-	-
TOTAL REVENUES	-0-	26,488	154
EXPENDITURES			
Current			
General government	-	-	490
Public safety	-	-	-
Health and welfare	-	-	-
Capital outlay	-	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	-0-	-0-	490
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-0-	26,488	(336)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	50,000	-	-
Operating transfers out	(186,755)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(136,755)	-0-	-0-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(136,755)	26,488	(336)
Fund balances (deficits), beginning of year	441,812	31,499	14,369
Fund balances (deficits), end of year	\$ 305,057	\$ 57,987	\$ 14,033

Projects	
TRV Capital Projects	Total
\$ -	\$ 673,314
-	873,760
1,441	284,311
-	67,748
1,441	1,899,133
-	236,605
59,181	1,053,050
-	701,578
-	17,907
-	604,164
59,181	2,613,304
(57,740)	(714,171)
-	1,128,009
-	(382,880)
-0-	745,129
(57,740)	30,958
-	1,340,642
<u>\$ (57,740)</u>	<u>\$ 1,371,600</u>

Lake County, Michigan

Nonmajor Enterprise Funds

COMBINING STATEMENT OF NET ASSETS

Year Ended December 31, 2004

	<u>Treasurer's Administrative</u>	<u>Commissary</u>	<u>Total</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 4,735	\$ 6,972	\$ 11,707
Accounts receivable	<u>-</u>	<u>18,000</u>	<u>18,000</u>
TOTAL ASSETS	4,735	24,972	29,707
LIABILITIES			
Current liabilities			
Accounts payable	<u>-</u>	<u>5,561</u>	<u>5,561</u>
NET ASSETS			
Unrestricted	<u>\$ 4,735</u>	<u>\$ 19,411</u>	<u>\$ 24,146</u>

Lake County, Michigan

Nonmajor Enterprise Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN NET ASSETS

Year Ended December 31, 2004

	Treasurer's Administrative	Commissary	Total
OPERATING REVENUES			
Charges for services	\$ -	\$ 97,917	\$ 97,917
OPERATING EXPENSES			
Other	(1,713)	80,422	78,709
OPERATING INCOME	1,713	17,495	19,208
NONOPERATING REVENUES			
Interest revenue	9	-	9
INCOME BEFORE TRANSFERS	1,722	17,495	19,217
OTHER FINANCING USES			
Operating transfers out	-	(11,462)	(11,462)
NET INCOME	1,722	6,033	7,755
Net assets, beginning of year	3,013	13,378	16,391
Net assets, end of year	\$ 4,735	\$ 19,411	\$ 24,146

Lake County, Michigan

Nonmajor Enterprise Funds

COMBINING STATEMENT OF CASH FLOWS

Year Ended December 31, 2004

	Treasurer's Administrative	Commissary	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	\$ 961	\$ 80,717	\$ 81,678
Cash paid to suppliers	-	(82,563)	(82,563)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	961	(1,846)	(885)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to other funds	-	(11,462)	(11,462)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	961	(13,308)	(12,347)
Cash and cash equivalents, beginning of year	3,774	20,280	24,054
Cash and cash equivalents, end of year	\$ 4,735	\$ 6,972	\$ 11,707
Reconciliation of operating income to net cash provided (used) by operating activities			
Operating income	\$ 1,722	\$ 17,495	\$ 19,217
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
(Increase) in receivables	-	(17,200)	(17,200)
(Decrease) in accounts payable	-	(2,141)	(2,141)
(Decrease) due to other funds	(761)	-	(761)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 961	\$ (1,846)	\$ (885)

Lake County, Michigan

Internal Service Funds

COMBINING STATEMENT OF NET ASSETS

December 31, 2004

	Central Stores	Employee Benefit Fund	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ (5,201)	\$ 161,337	\$ 156,136
Inventory	8,869	-	8,869
Due from other funds	341	-	341
	<u>4,009</u>	<u>161,337</u>	<u>165,346</u>
TOTAL ASSETS	4,009	161,337	165,346
LIABILITIES			
Current liabilities			
Accounts payable	602	22,356	22,958
Due to other funds	-	6	6
	<u>602</u>	<u>22,362</u>	<u>22,964</u>
TOTAL LIABILITIES	602	22,362	22,964
NET ASSETS			
Restricted for employee benefits	-	138,975	138,975
Unrestricted	3,407	-	3,407
	<u>3,407</u>	<u>-</u>	<u>3,407</u>
TOTAL NET ASSETS	\$ 3,407	\$ 138,975	\$ 142,382

Lake County, Michigan

Internal Service Funds

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended December 31, 2004

	Central Stores	Employee Benefit Fund	Total
OPERATING REVENUES			
Charges for services	\$ 17,582	\$ 1,751,068	\$ 1,768,650
OPERATING EXPENSES			
Personal services and fringes	-	1,685,070	1,685,070
Supplies	26,759	-	26,759
TOTAL OPERATING EXPENSES	26,759	1,685,070	1,711,829
CHANGE IN NET ASSETS	(9,177)	65,998	56,821
Net assets, beginning of year	12,584	72,977	85,561
Net assets, end of year	\$ 3,407	\$ 138,975	\$ 142,382

Lake County, Michigan
Internal Service Funds
COMBINING STATEMENT OF CASH FLOWS
Year Ended December 31, 2004

	Central Stores	Employee Benefit Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from users	\$ 17,582	\$ 1,751,068	\$ 1,768,650
Cash paid to suppliers	(17,872)	-	(17,872)
Cash paid for employee benefits	-	(1,685,333)	(1,685,333)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(290)	65,735	65,445
Cash and cash equivalents, beginning of year	(4,911)	95,602	90,691
Cash and cash equivalents, end of year	<u>\$ (5,201)</u>	<u>\$ 161,337</u>	<u>\$ 156,136</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ (9,177)	\$ 65,998	\$ 56,821
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Decrease in receivables	-	690	690
Decrease in inventory	8,402	-	8,402
Increase (decrease) in accounts payable	485	(953)	(468)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (290)</u>	<u>\$ 65,735</u>	<u>\$ 65,445</u>

Lake County, Michigan

Agency Funds

COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

December 31, 2004

	Agency Funds			
	Trust and Agency	Library Penal	Transportation Millage Fund	Total
ASSETS				
Cash and cash equivalents	\$ 643,320	\$ 32,434	\$ 10,841	\$ 686,595
Due from governmental units - State	62,214	-	-	62,214
TOTAL ASSETS	705,534	32,434	10,841	748,809
LIABILITIES				
Undistributed collections payable	\$ 365,337	\$ 22,594	\$ 10,841	\$ 398,772
Deposits payable	36,850	-	-	36,850
Due to other governmental units				
Federal/State	157,096	-	-	157,096
Local	62,778	-	-	62,778
Due to other funds	16,940	2,000	-	18,940
Due to others	66,533	7,840	-	74,373
TOTAL LIABILITIES	\$ 705,534	\$ 32,434	\$ 10,841	\$ 748,809

Lake County, Michigan

Component Unit Funds

COMBINING BALANCE SHEET - DRAINAGE DISTRICTS

December 31, 2004

	<u>Capital Projects</u>		
	<u>Big Star Lake Level Revolving</u>	<u>Wolf Lake Level Revolving</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ (577)	\$ 2,851	\$ 2,274
Special assessments receivable	<u>2,788</u>	<u>-</u>	<u>2,788</u>
TOTAL ASSETS	<u>\$ 2,211</u>	<u>\$ 2,851</u>	<u>\$ 5,062</u>
FUND BALANCES			
Unreserved			
Undesignated - reported in capital projects	<u>\$ 2,211</u>	<u>\$ 2,851</u>	<u>\$ 5,062</u>

Note: Reconciliation of the component unit governmental fund balance sheet to the statement of net assets for this component unit is not required as the component unit's fund balance was equal to the component unit's net assets as of December 31, 2004.

Lake County, Michigan

Component Unit Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - DRAINAGE DISTRICTS

For the Year Ended December 31, 2004

	Capital Projects		
	Big Star Lake Level Revolving	Wolf Lake Level Revolving	Total
REVENUES			
Special assessment	\$ 2,160	\$ -	\$ 2,160
Interest	4	5	9
TOTAL REVENUES	2,164	5	2,169
EXPENDITURES	-	-	-0-
EXCESS OF REVENUES OVER EXPENDITURES	2,164	5	2,169
Fund balances, beginning of year	47	2,846	2,893
Fund balances, end of year	\$ 2,211	\$ 2,851	\$ 5,062

Note: Reconciliation of the statement of revenues, expenditures, and changes in fund balance of this component unit's governmental fund to the statement of activities for the component unit is not required as the net change in fund balance of the component unit governmental fund was equal to the change in net assets of the component unit for the year ended December 31, 2004.

Lake County, Michigan
Component Unit Funds
BALANCE SHEET - COUNCIL ON AGING
December 31, 2004

	<u>Special Revenue</u>
ASSETS	
Cash and cash equivalents	\$ 83,642
Taxes receivable	<u>264,633</u>
TOTAL ASSETS	<u><u>\$ 348,275</u></u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 13,105
Deferred revenue	<u>264,633</u>
TOTAL LIABILITIES	277,738
FUND BALANCE	
Fund balance	
Unresevered undesignated	<u>70,537</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 348,275</u></u>

Note: Reconciliation of the component unit governmental fund balance sheet to the statement of net assets for this component unit is not required as the component unit's fund balance was equal to the component unit's net assets as of December 31, 2004.

Lake County, Michigan

Component Unit Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - COUNCIL ON AGING

For the Year Ended December 31, 2004

	Special Revenue
REVENUES	
Taxes	\$ 250,272
EXPENDITURES	
Health and welfare	<u>234,000</u>
EXCESS OF REVENUES OVER EXPENDITURES	16,272
Fund balances, beginning of year	<u>54,265</u>
Fund balances, end of year	<u><u>\$ 70,537</u></u>

Note: Reconciliation of the statement of revenues, expenditures, and changes in fund balance of this component unit's governmental fund to the statement of activities for the component unit is not required as the net change in fund balance of the component unit governmental fund was equal to the change in net assets of the component unit for the year ended December 31, 2004.

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of Certified
Public Accountants
and
Michigan Association of
Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners
Lake County
Baldwin, Michigan

We have audited the basic financial statements of Lake County as of and for the year ended December 31, 2004, and have issued our report thereon dated June 17, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lake County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lake County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the administration and Board of Commissioners of Lake County, the pass-through grantors, and the Federal award agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 17, 2005

Lake County, Michigan

**SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

December 31, 2004

Lake County, Michigan

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Principals

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Commissioners
of Lake County
Baldwin, Michigan

Compliance

We have audited the compliance of Lake County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that is applicable to the major Federal program for the year ended December 31, 2004. Lake County's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to the major Federal programs are the responsibility of Lake County's management. Our responsibility is to express an opinion on Lake County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major Federal programs occurred. An audit includes examining, on a test basis, evidence about Lake County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Lake County's compliance with those requirements.

In our opinion, Lake County complied, in all material respects, with the requirements referred to above that are applicable to the major Federal programs for the year ending December 31, 2004.

Internal Control Over Compliance

The management of Lake County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Lake County's internal control over compliance with requirements that could have a direct and material effect on the major Federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one (1) or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to the major Federal programs being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregated discretely presented component units, each major fund, and the aggregate remaining fund information of Lake County as of and for the year ended December 31, 2004, and have issued our report thereon dated June 17, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Lake County's basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Commissioners and management of Lake County, the pass-through grantors, and the Federal awarding agencies and is not intended to be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 17, 2005

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2004

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Restated Program Award Amount</u>	<u>Restated (Memo Only) Prior Year Expenditures</u>	<u>Current Year Expenditures</u>
U.S. DEPARTMENT OF JUSTICE The Drug Control and System Improvement Grant Program Passed through State Department of Community Health and the State Office of Drug Control Policy 03/04 L.L.E.B.G.	16.592	2003-LB-BX-2359	\$ 12,675	\$ -	\$ 12,675
Passed through Michigan Family Independence Agency Juvenile Justice 04/05 Regular 03/04 Regular	16.523	JABGN-04-43001 JABGN-03-43001	50,117 50,118	- 35,691	30,455 9,894
2004 BASIC Grant	16.540	N/A	100,235 15,000	35,691 -	40,349 6,876
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES Passed through Michigan Family Independence Agency Child Support Enforcement (Title IV-D) ^{(a)(c)} Cooperative Reimbursement - Friend of the Court/Prosecuting Attorney Combined Grant 04/05 03/04 Incentive Payments ^(b) 2003 Regular 2004 Medical Support Collection	93.563	CS/COMB-05-43003-1 CS/COMB-04-43003-2 N/A CS/MED-05-43001	- - - -	- - - -	39,029 124,454 5,573 2,857 6,031
Social Services EZ/EC ^{(c)(d)} 94-09	93.667	EZEC-95-43001	-0- 2,947,368	-0- 1,729,560	177,944 192,510

Lake County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2004

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Restated Program Award Amount</u>	<u>Restated (Memo Only) Prior Year Expenditures</u>	<u>Current Year Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE Forestry Services - Rivers and Campgrounds Project (Direct Programs) 2004	10.664	01-LE-11090401-005	\$ 6,898	\$ 6,898	\$ 6,898
Passed through Michigan Department of Natural Resources Schools and Roads - Grants to States 2004	10.665	N/A	64,908	-	64,908
			71,806	6,898	71,806
U.S. DEPARTMENT OF HOMELAND SECURITY Passed through Michigan State Police State Homeland Security 2003 SHSGP - SAP 2003 SHSGP - Exercise Grant 2003 SHSGP - Equipment Grant	97.004	N/A N/A N/A	25,000 36,528 18,451	- - -	10,756 36,528 3,617
Emergency Management Performance Grant FY04 Regular 2003 Supplemental	97.042	N/A N/A	21,543 600	- -	21,543 600
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ 3,249,206	\$ 1,772,149	\$ 575,204

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2004

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Lake County, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements which are reconciled in Note C.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a)-(d) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards:

- (a) Reimbursement of these contracts is passed through the State Family Independence Agency. The amounts reported on the Schedule of Expenditures of Federal Awards represent the Federal portion of the respective amounts based on 66% of total contract expenditures.
- (b) The reimbursements for the IV-D Incentive Payments Program are based on support payments collected. Expenditures have been reported to the extent of earned revenues.
- (c) Denotes programs tested as "major programs".
- (d) This program is reported as of the subrecipient's fiscal year-end of September 30, 2004.

NOTE C: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The following reconciles the Federal revenues reported in the December 31, 2004, basic financial statements to the expenditures of the County administered Federal programs reported on the Schedule of Expenditures of Federal Awards:

	<u>Federal/ State Revenue</u>	<u>Less State Revenue</u>	<u>Adjustments</u>	<u>Federal Expenditures</u>
PRIMARY GOVERNMENT				
GENERAL FUND				
Homeland Security	\$ 50,901	\$ -	\$ -	\$ 50,901
Emergency Management	22,143	-	-	22,143
Sheriff - LLEBG	4,500	-	-	4,500
Other Programs	<u>566,220</u>	<u>(566,220)</u>	<u>-</u>	<u>-0-</u>
TOTAL GENERAL FUND	643,764	(566,220)	-0-	77,544
SPECIAL REVENUE FUNDS				
Sheriff Road Patrol	15,073	-	-	15,073
Friend of the Court	185,620	(7,676)	-	177,944
Child Care	207,374	(160,149)	-	47,225
Social Services EZ/EC				
Pass through Grant	192,510	-	-	192,510
Other programs	<u>2,003,372</u>	<u>(2,003,372)</u>	<u>-</u>	<u>-0-</u>
TOTAL SPECIAL REVENUE FUNDS	2,603,949	(2,171,197)	-0-	432,752

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

December 31, 2004

NOTE C: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

	<u>Federal/ State Revenue</u>	<u>Less State Revenue</u>	<u>Adjustments</u>	<u>Federal Expenditures</u>
TRUST AND AGENCY FUNDS				
Trust and Agency	\$ _____ -	\$ _____ -	\$ 64,908 ⁽¹⁾	\$ 64,908
TOTAL PRIMARY GOVERNMENT	<u>\$ 3,247,713</u>	<u>\$(2,737,417)</u>	<u>\$ 64,908</u>	<u>\$ 575,204</u>

Following is a summary of the adjustments in the above schedule:

- ⁽¹⁾ The adjustment related to amounts reported as an increase when received and a decrease when disbursed within the trust and agency fund's activity because the County acts in a trustee capacity of these funds and distributes them to the local units of government and therefore does not recognize the funds as revenues of expenditures, but recognizes the amounts as expenditures in the Schedule of Expenditures of Federal Awards as of December 31, 2004 in accordance with OMB Circular A-133.

NOTE D: SUBRECIPIENTS

Of the Federal expenditures presented in the Schedule of Expenditures of Federal Awards as of December 31, 2004, the County provided Federal awards to subrecipients in the amount of \$192,510 from the U.S. Health and Human Services Social Services EZ/EC grant (CFDA 93.667) and \$64,908 from the U.S. Department of Agriculture Schools and Roads - Grants to States (CFDA 10.665).

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
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James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.

Certified Public Accountants

Member
American Institute of Certified
Public Accountants
and
Michigan Association of
Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Commissioners
of Lake County
Baldwin, Michigan

We have audited the financial statements of Lake County, Michigan as of and for the year ended December 31, 2004, and have issued our report thereon dated June 17, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lake County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of management, the Board of Commissioners and management of Lake County, pass-through grantors, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 17, 2005

Lake County, Michigan

SCHEDULE OF FINDINGS

For the Year Ended December 31, 2004

SUMMARY OF AUDITOR'S RESULTS

An unqualified opinion was issued on the basic financial statements. We noted no instances of noncompliance with laws, regulations, contracts, and grants that could have a direct and material effect on the basic financial statements. The County did not qualify as a low-risk auditee.

An unqualified opinion was issued on compliance for major programs. We did not disclose any findings related to internal controls or compliance related to the major program tested.

The major programs tested to cover 50 percent of the total Federal expenditures were the Child Support Enforcement (Title IV-D) (CFDA 93.563) and the Social Services (EZ/EC) (CFDA 93.585) programs. Total Federal expenditures for the year ended December 31, 2004 for the major programs were \$370,454, which is approximately 64 percent of total Federal expenditures.

The County had no Type A programs. Programs of less than \$300,000 were determined to be Type B programs.

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Control Over the Financial Statements.

None

Findings Related to Compliance with Requirements Related to the Financial Statements.

None

Findings Related to Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

None

Findings Related to Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.

04-1 SUBRECIPIENT MONITORING

Social Services EZ/EC Grant Passed through the Michigan Family Independence Agency - CFDA 93.667; Grant No. ECEZ-95-43001; Grant period - continues through December 2004.

During our review of the process related to subrecipient monitoring for the above noted grant it was determined that the County did not have formal procedures in place to monitor the subrecipient and did not reflect the grant activity within the County's general ledger. It was noted that the subrecipient was providing some information to the County by late 2004 and there still was a County representative on the board of the subrecipient entity who obtains a copy of the subrecipient's audit on an annual basis. The County has yet to establish an actual Special Revenue Fund in their general ledger to report the activity. This finding did not appear to result in any questioned costs.

We recommend the County implement formal written procedures related to subrecipient monitoring and then periodically perform the established monitoring procedures.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended December 31, 2004

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to Federal Awards and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

As noted in the prior year financial statements, the County did not have a formal procedure in place to monitor subrecipients and that monitoring was not performed during the prior year. The prior finding was as follows:

Social Services EZ/EC Grant Passed through the Michigan Family Independence Agency - CFDA 93.667; Grant No. ECEZ-95-43001; Grant period - continues through December 2004.

During our review of the process related to subrecipient monitoring for the above noted grant it was determined that the County did not have formal procedures in place to monitor the subrecipient during the prior year. It was also noted that no monitoring was performed during the prior year other than a County representative being on the board of the subrecipient entity who obtained a copy of the subrecipient's audit on an annual basis and the County received copies of the check warrants but no detail was provided to support the expenditures. This finding did not appear to result in any questioned costs.

We recommended the County implement formal written procedures related to subrecipient monitoring and then periodically perform the established monitoring procedures.

This prior finding, with some minor modifications, has not been resolved and is repeated at 04-1 for the current year as this program was selected as a major program for the current year.

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MANAGEMENT LETTER

To the Board of Commissioners
of Lake County
Baldwin, Michigan

Dear Ladies/Gentlemen:

As you know, we have recently completed our audit of the records of Lake County, Michigan for the year ended December 31, 2004. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. The bank reconciliation process in the Treasurer's office needs to be evaluated and modified.

Based on our analysis of fraud risk and our testing related to the bank reconciliation process, we noted the following issues:

- A. It was determined that the Treasurer's office had no formal policy in place and had not communicated to the bank that it was County practice to not make corrections with "white-out" or any other type of correction material, that deposit tickets should not have any visually obvious changes on them, and that there must be an authorized set of initials on the deposit ticket. There were several of these modified deposit tickets noted during our procedures.

We suggest the County adopt a formal policy related to these issues and provide this policy to all banks with County deposits.

- B. Based on our analysis of the bank reconciliations, we also noted that several bank accounts were not reconciled throughout the year and still were not complete when we started year-end fieldwork. It was noted that various general ledger posting errors and unrecorded transactions had not been properly accounted for until the reconciliations were completed.

Also, based on our analysis of the month-end bank reconciliation process it was also noted that there was no official process in place for the Treasurer's office and the Clerk's office to formally reconcile the computerized general ledger back to the Treasurer's detailed records on a per fund basis for the cash and the investment accounts. Also, there was no supervisor oversight by the Treasurer as far as analyzing and approving the monthly bank reconciliations.

Reconciliation of all bank accounts in a timely manner is one of the most important procedures for maintaining a sound internal control structure over all cash activities. There is a high probability that fraud could occur and go undetected. It is impossible to know if this may have happened in 2004 without more in depth analysis. The failure to reconcile cash also results in the inability to monitor cash flows to assure adequate funds are on hand to meet cash needs. Timely bank reconciliations are a critical accounting function. As a result of not reconciling the County's bank accounts in a timely manner, reconciling items were not identified and resolved until a significant time after year-end.

1. The bank reconciliation process in the Treasurer's office needs to be evaluated and modified - continued.

We suggest the County assure all bank reconciliations be performed and approved by the appropriate individuals on a timely basis and any adjustments to the general ledger or at the bank be handled immediately. This process will not only assure accurate cash balances but will be useful for the County to monitor cash flow.

2. Areas related to the receipting process need to be evaluated and modified.

Based on our analysis of the receipts system we noted the following areas that need to be analyzed:

- A. During our analysis of decentralized receipts processing within the Treasurer's office we noted several instances where there were differences in the amounts showing as deposited, per the Treasurer's office records, reported in the general ledger and actually deposited at the bank. Several of the differences were between amounts reported as "cash" and "checks" but others were differences that could not be specifically explained. This issue, coupled with failure to perform timely bank reconciliations, allows for the potential of fraud or other inappropriate activities to occur with no detection.

We suggest the County evaluate all the instances brought to their attention and develop additional controls to prevent these kinds of issues in the future. We suggest the County also contact the State of Michigan Department of Treasury for further assistance with these, and potentially all transactions, throughout the year.

- B. Based on our inquiry of Treasurer's office personnel, it was determined that funds on hand prior to the Treasurer's office closing of the registers (where funds are counted and locked in the safe) were not taken to the bank until the next day. This process provides the opportunity for someone with safe access to take cash out of the deposit and replace it by the next day.

It was also determined through inquiry of Treasurer's office personnel that there was no safeguarding of deposits from those individuals that have access to the safe in the Treasurer's office. This means that, while the funds that are waiting to be deposited at the bank are locked in the safe, everyone in the Treasurer's office has access to the safe and those funds. This would allow anyone in the department to take cash from the deposit and replace it with their own personal check.

We suggest the Treasurer's office immediately take all funds to the bank that has been reconciled to daily deposits to prevent these issues in the future.

3. A reconciliation of trust and agency liability accounts to supporting documentation should be performed.

During the course of our audit it was noted that there were some trust and agency liability accounts had not been reconciled to supporting documentation and those accounts had not been adjusted in the general ledger.

We suggest the significant trust and agency liability accounts be reconciled at a specific point in time, and any necessary adjustments to the general ledger be made.

4. The County should review the status of individual fund equities (deficits) near year-end.

As noted in the financial statements, the County had three (3) funds that ended the year in a deficit financial position. As a result, the County will be required to submit a deficit reduction plan to the State of Michigan for these funds.

We suggest the County review the status of all funds near year-end and make appropriate adjustments when possible to eliminate deficits.

5. Budgets should be adopted for all funds and monitored and amended when necessary.

As noted in the annual financial statements, some of the budgeted activities of the County exceeded the amounts appropriated. The variances noted were in the General and Special Revenue Funds. It was also noted that not all Special Revenue Funds had budgets adopted for 2004.

The Michigan Public Act 621 of 1978, as amended, provides that the County shall not incur expenditures in excess of the amounts appropriated. The County is also required to adopt budgets for the General and all Special Revenue Funds.

5. Budgets should be adopted for all funds and monitored and amended when necessary - continued.

We suggest the County adopt budgets for all applicable funds and monitor expenditures against the adopted budget on a periodic basis, preferably monthly. Appropriate budget amendments should be made as needed.

6. All sensitive computer systems should be password protected.

Based on our fraud risk analysis inquiries, it was determined there was no password control or any other controls over access to the computerized accounting system and that anyone who has the ability to get into the financial software can post entries or change balances without running those changes/adjustments through the clerk's office where the control over access should be located.

We suggest the County evaluate all computerized processing aspects and implement a password protection system as soon as possible.

7. The journal entry process should be evaluated and modified.

During our analysis of the journal entry process it was determined that there was no indication on the journal entry form the individual(s) that was proposing, approving and then subsequently posting the entry to the system. Also, it was noted that very little supporting documentation was present within the journal entry binders as back up to support the entries being posted. There were also several instances brought to the attention of the Treasurer's office where the Delinquent Tax Receivables had been adjusted by journal entry with no support or justification for those adjustments.

We suggest the County implement procedures to provide adequate documentation on who proposes, approves, and posts entries into the system. All journal entries should also be supported by detailed documentation as support to justify all postings. We suggest the County continue to investigate the entries that were brought to their attention as being suspicious or lacking any support or justification. The County may even consider getting the State of Michigan Department of Treasury involved with this process.

8. The process of reconciling of delinquent tax receivables needs to be evaluated and modified.

During the course of the audit, it was determined that the County had not reconciled their subsidiary delinquent tax receivable system to the County general ledger for most of the year.

Subsequent to year-end the Treasurer's office was able to reconcile these receivable and entries were posted to correct them in the current audited financial statements.

We suggest the Treasurer's office reconcile these subsidiary ledgers to the general ledger periodically throughout the year and investigate and correct any difference noted between the subsidiary delinquent tax receivable system and the County general ledger.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements and this report does not affect our report on the financial statements dated June 17, 2005.

This report is intended solely for the use of management and the Board of Commissioners of Lake County and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you, and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 17, 2005